SUPERVISOR ANTONOVICH'S MOTION

AUDITOR-CONTROLLER'S MEMO

COUNTY LIBRARIAN'S STATUS REPORT

AGN. NO._____

MOTION BY SUPERVISOR MICHAEL D. ANTONOVICH December 9, 2003

QUALITY AND PRODUCTIVITY COMMISSION

Created by the Board of Supervisors in June of 1982, the Quality and Productivity Commission has been working diligently to fulfill its many duties to enhance the quality and efficiency of the services delivered to the public as well as streamlining and improving the overall inner-workings of the County itself.

Among the responsibilities the Commission is entrusted with are ensuring that County Department Heads and Managers consider internal economies and streamline tasks for purposes of cost savings; provide advice, information and recommendations relating to productivity and quality of service in the County to County officials, Department Heads and Managers; and develop and present recommendations for appropriate policies and programs designed to increase efficiency and effectiveness in the County.

With those responsibilities in mind, there are a variety of areas the Commission needs to direct their attention. The Sheriff's Department is continuously battling management of overtime. The factors that lend to the utilization of overtime and the costs associated are a large part of the challenge within the Sheriff's budget. The Department of Health Services (DHS) has many methods of receiving payments from patients at our facilities such as Ability –to-Pay (ATP), Medi-Cal, and Third Party Payers. There is a need to review the current billing and collection practices used by DHS. Additionally, the County Public Library has faced the threat of severe service reductions and facility closures due to budget problems. The Department would benefit from the assistance of the Quality and Productivity Commission to look objectively at the Library's financial issues to see if opportunities for improvement exist.

M –O- R- E

MOTION

MOLINA	____________________
BURKE	____________________
YAROSLAVSKY	____________________
ANTONOVICH	____________________
KNABE	____________________

I, THEREFORE, MOVE THAT the Quality and Productivity Commission to report back to the board in 90 days with findings and recommendations on the following:

- The management of overtime by the Sheriff's Department;
- The billing and collection process with the Department of Health Services, and,
- A financial review of the County Public Library.

# # #

MDA:ap/am/kbc

s/motions/qualityandproductivitycomm

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 12, 2003

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley tm
Auditor-Controller

SUBJECT: **DECEMBER 9, 2003 BOARD MEETING AGENGA ITEM 8 - AUDITS OF SHERIFF OVERTIME, DEPARTMENT OF HEALTH SERVICES BILLING AND COLLECTIONS AND COUNTY PUBLIC LIBRARY**

On December 9, 2003, your Board instructed the Auditor-Controller to report back in one week on audits that have been performed regarding the Sheriff Department's management of overtime, the Department of Health Services' (DHS) billing and collection process and the County Public Library's financial information. The instruction was related to a motion to request the County Quality and Productivity Commission to review these areas.

We have performed a number of audits that included recommendations in each of the noted areas. The following is a brief summary of our findings in our most recent reviews. In addition, attached are copies of our most recent reports on these issues.

Sheriff Overtime

Sheriff Department Review Final Phase Report - July 7, 1997

We noted a considerable number of personnel worked large amounts of overtime and that the Sheriff's Department had limited central monitoring. In addition, we noted that the Sheriff's actual overtime expenditures exceeded the amount budgeted by large amounts for the two years reviewed. Therefore, we recommended that the Sheriff improve overtime controls by developing more specific overtime usage guidelines, requiring formal justification, filling vacancies, and centrally monitoring overtime to ensure compliance with established guidelines.

We have also completed several follow-up reviews on our 1997 report. In our August 3, 2001 follow-up, we noted that the Sheriff's overtime costs were not increasing as rapidly as in past fiscal years. In addition, we noted that the Department had met their Fiscal Year 1999–2000 budget and continued recruiting personnel to fill vacancies to further reduce overtime. However, we continued to note instances where the Department's managers did not properly pre-approve all overtime.

In our June 25, 2002 follow-up of the 1997 report, we noted that the Sheriff summarized and discussed overtime usage on a weekly basis. The Sheriff's Department also continued its aggressive recruiting campaign to fill vacant positions. However, the Sheriff could not fill all positions due to the County hiring freeze and limited number of qualified candidates. In addition, we noted that a significant number of employees continued to work large amounts of overtime, proper pre-approval was not always obtained, and that the Sheriff under-budgeted overtime in three of the last four years.

In addition to our prior audit and follow-ups, an outside consultant has just completed a Board-requested review of the Sheriff's budget process, including the Sheriff's overtime budget. The consultants indicated that the primary cause for significant overtime budget variances is the lack of an accurate method to project overtime. The consultants recommended that the Sheriff consider developing a model for accurately projecting overtime. In addition, the consultants recommended that the Sheriff consider budgeting and tracking reimbursed overtime separately from other overtime. The Department is reimbursed for overtime for contract cities and other contracts or events. The consultant's final report will be issued to the Board within the next week. We have attached an excerpt from the draft of the consultant's report on the overtime issue.

DHS Billings and Collections

Consolidated Business Office – Accounts Receivable Write-Off and Adjustment Review - October 13, 1999

The Consolidated Business Office (CBO) does billing and patient accounts receivable functions for three DHS facilities. Our review disclosed that CBO could improve their monitoring and billing functions. We recommended that CBO develop procedures to monitor billing adjustments, collection activities and unbilled Medi-Cal accounts. We also recommended implementation of additional controls to ensure timely and appropriate processing of accounts.

Delinquent Self-Pay Account Collections Review - July 21, 2001

We noted a lack of standardized collection procedures for self-pay accounts and weaknesses in DHS' self-pay collection data. We recommended that DHS develop and implement standard self-pay billing policies and consistent collection and tracking procedures among DHS facilities.

In November 2002, we issued a follow-up report on our July 21, 2001 report on Delinquent Self-Pay Accounts. We noted that DHS had taken action to implement three of the eight recommendations related to billing policies and procedures. However, DHS still needed to take additional action to ensure that the recommendations related to tracking and monitoring self-pay accounts, the development of other self-pay polices and the other remaining recommendations were fully implemented.

Public Library Financial Controls

Public Library Fiscal Review - November 21, 2002

We completed a comprehensive review of the Public Library's fiscal operations and noted instances where the Library could improve internal controls and compliance with County fiscal policies and procedures in areas including cash handling, expenditure accounting, procurement and payment practices and contracting. The report included recommendations on expenditure accruals, commitments, travel expenditures, separation of cash handling duties, cash purchasing discounts, overtime controls and contract monitoring.

Because the areas addressed in the Board motion have been recently reviewed, the Board may want to request each department to provide the Board with a status on the recommendations in the audit reports, rather than have the Quality and Productivity Commission perform additional reviews at this time.

If you have any questions, please call me or have you staff contact DeWitt Roberts at (626) 293-1103.

Attachments
JTM:DR:JS

c: David E. Janssen, Chief Administrative Officer
Leroy D. Baca, Sheriff
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, DHS
Margaret Donnellan Todd, County Librarian
Violet Varona-Lukens, Executive Officer
Audit Committee

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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ALAN T. SASAKI
AUDITOR-CONTROLLER

July 7, 1997

The Honorable Board of Supervisors
County of Los Angeles
383 Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

SHERIFF DEPARTMENT REVIEW FINAL PHASE REPORT

We have completed the final phase of the Auditor-Controller's portion of the Board ordered review of the Sheriff's Department. This phase consisted of a review of payroll and contract and procurement operations. Food procurement was not included as this is the subject of a separate review.

The review focused on evaluating management controls, internal controls, and compliance with County policies and procedures.

The following is a summary of the most significant findings:

Payroll

Overtime

The Department has delegated most of the overtime approval and monitoring functions to lower level management and only limited central monitoring is performed. A review of actual usage indicates that a significant number of personnel are working large amounts of overtime. The Department has the opportunity to reduce overtime expenditures by developing more specific guidelines, requiring more formal justification for overtime, and establishing a centralized monitoring function to identify instances of excessive overtime and ensure compliance with guidelines.

Work Schedule Rules

The Department has established policies limiting the amount of hours that can be worked within certain time frames. These rules are important in that they help ensure staff are physically and mentally capable of performing their functions. They also help control the County's liability for stress and other compensation claims by employees, as well as claims from other parties for negligence and malpractice.

During our review, we noticed various instances where the work rules were exceeded. The Sheriff should reinstruct staff regarding the requirement to comply with the work schedule rules and institute monitoring procedures to ensure compliance.

Payroll System Access

Personnel who have access to the County-wide Timekeeping and Payroll Personnel System (CWTAPPS) have the ability to change payroll records and affect payroll payments. For this reason, it is important that system access be restricted. The Department does not regularly review who has access to CWTAPPS and certain personnel have access that should not have. The Sheriff needs to implement stricter controls to restrict access to CWTAPPS.

Time Cards

A basic County internal control requirement for all departments is to have employees certify the accuracy of the payroll by signing time cards. The Sheriff is not complying with this requirement. The Department should require employees to sign time cards in order to comply with the requirement that employees certify that they actually worked the hours for which they are being paid.

Bonuses

Departmental personnel are potentially eligible for a variety of pay bonuses. We found that ineligible personnel were receiving bonuses and that periodic reviews are not being performed to verify eligibility. The Sheriff needs to conduct a review to identify all unjustified bonuses and eliminate them. Ongoing periodic reviews should continue to be performed to ensure only eligible personnel receive bonuses.

Workers Compensation

The Department is overpaying certain employees on workers' compensation because it is not reducing leave pay (vacation and sick pay) by the amount of the workers' compensation benefits. It needs to implement procedures to prevent these overpayments.

Payroll Monitoring

In addition to the areas previously discussed, we noted various other instances of improper payments and departures from required internal controls. Our overall conclusion is that the Department does not have sufficient control over its payroll operations. It needs to implement a stronger central monitoring function, train all staff regarding proper payment rules and internal controls, and have all timekeepers report to its central payroll operation rather than the line units.

Contracting

Contract Renewals

Many of the Department's contracts are renewed with existing vendors from year to year without going through the competitive bid process. To help ensure the lowest possible cost for services and supplies, the Department should annually review each contract and competitively bid those for which there are other potential contractors.

Evaluation Process

The Department's evaluations of contract proposals are not well structured or documented. In addition, we noted instances where contracts were inaccurately and incompletely evaluated. The Sheriff should develop more detailed and objective evaluation criteria, better document the evaluation process, and ensure evaluations are accurate.

Board Disclosure and Approval

We noted an instance where the Department's correspondence to the Board regarding a contract award had significant disclosure omissions that could have affected the Board's decision. In addition, the contractor was paid a significant amount above that approved by the Board. This matter has been referred for further investigation.

Monitoring

In order to ensure the integrity of the Department's contracting process, the Sheriff should require a high level review of all contract evaluations and Board correspondence to ensure they are complete, accurate, and well documented.

Procurement

Pre-approval of Purchases

We noted instances where staff were ordering items prior to obtaining approval to purchase them. This circumvents controls and can result in obligating the County to make an inappropriate purchase or a purchase for which there is no available funding.

Separation of Duties

Individuals were performing multiple aspects of the procurement function. The Department can improve internal controls by ensuring that purchasing duties are separated among staff to provide an appropriate system of checks and balances.

Sole Source Purchases

Purchases have been made sole source when potential competitors were available. These purchases should have been competitively bid to ensure the lowest possible prices were obtained.

Split Purchases

The County requires that certain purchases over $5,000 must be reviewed and approved by the Internal Services Department (ISD). The Sheriff was fragmenting (splitting) purchases into multiple purchase documents to give the impression the purchases did not have to be processed through ISD. This practice is specifically prohibited.

Centralized Approval and Monitoring

The Department has exempted certain units from obtaining purchasing approvals and submitting documentation to Headquarters fiscal staff. Purchasing controls and compliance monitoring would be improved if all purchases were required to be processed through Headquarters.

Overall Conclusion

The areas requiring improvement contained in this and our first phase review report (Attachment IV) are significant and indicate that the Department should change the manner in which it manages its fiscal operations. In general terms, the Department needs to establish more centralized control, and increase centralized monitoring of fiscal operations. In addition, staff need to be trained/retrained and made better aware of their responsibility to ensure fiscal operations are functioning appropriately.

The reports contain a total of 60 specific recommendations. Implementing them or reasonable alternatives will require a concerted effort by the Department. In order to effectively implement the changes, Departmental management will need to clearly communicate to staff its expectations and actively monitor implementation status.

The Sheriff has fully cooperated and assisted us in our reviews and management consistently demonstrated concern over problems noted and has recognized the need for change.

Attachments I and II contain specific information regarding this final phase of the review. Attachment III is the Sheriff's response which indicates their general agreement.

Please call if you have any questions.

Sincerely,

Alan Sasaki
Auditor-Controller

AS:PTM:ck
Attachments
5:saudltr

c: Sheriff Sherman Block
David E. Janssen
Judy Hammond
Audit Committee

Attachment I

SHERIFF AUDIT

Payroll

Overtime Controls

The Sheriff's Department each year allocates a portion of its salary and employee benefit budget to overtime. In 1995-96, the Department budgeted $25 million and actual expenditures were $38 million. For 1996-97, the Department budgeted $27 million and estimated overtime expenditures are $44 million. Department management has indicated that a significant portion of overtime is due to vacancies.

The Department has guidelines governing when it is appropriate to work overtime. However, the guidelines are vague and basically delegate the decision to the individual unit or watch commander's judgment. In addition, unit commanders are supposed to conduct a monthly audit of the appropriateness of overtime worked, but documentation is not required or maintained to verify such audits are performed.

Central management's monitoring consists primarily of monitoring dollars spent for budget projection purposes. It does not regularly review specific instances of overtime usage to identify questionable amounts.

A review of calendar year 1996 overtime usage indicated that a significant number of personnel are working large amounts of overtime. One hundred personnel each worked in excess of 650 hours for the year. This is equivalent to almost four months of full-time work hours per year.

The following are specific examples of excessive or otherwise questionable overtime paid during the 1996 calendar year:

- Eight sergeants working in custody were paid between $50,000 and $60,000 for overtime. Their overtime ranged between 1,002 and 1,188 hours for the year. This is equivalent to approximately 6 months of full-time work per year. We noted that one sergeant was a scheduling sergeant responsible for assigning work shifts.

- A physician was paid $44,000 for 831 hours of overtime. Another was paid $53,000 for 982 hours of overtime. These amounts of overtime are equivalent to approximately 5 and 6 months of full-time work. For one of the physicians, overtime hours were not pre-approved and reasons for overtime were vague.

- Timekeepers and other clerical personnel at the Carson station worked approximately five times the average overtime of similar sized stations. Overtime was not being approved by the unit or watch commander. A review of the propriety of amounts paid to these employees disclosed various overpayments, paperwork discrepancies, and departures from Sheriff work schedule rules.

The degree to which overtime approval has been delegated, and the limited nature of centralized monitoring, coupled with the specific examples of excessive or questionable usage observed leads us to the conclusion that there is opportunity to reduce overtime expenditures. It should be noted that a 10% reduction equates to approximately $4 million.

In order to improve overtime controls, the Sheriff should take the following actions:

- Develop more specific guidelines to determine the necessity for overtime. The guidelines should be tailored to each functional area.

- Require unit commanders to submit monthly reports on overtime indicating the hours worked and the general reasons for the necessity. Specific explanations for individuals working in excess of 40 hours per month should be required. In addition, departures from Department work schedule rules should be identified and explained. The report should also indicate what actions are being taken to minimize overtime.

- Implement a central review process to evaluate whether the various units are complying with Departmental policy supported by computerized monitoring reports to monitor overtime usage and institute corrective action where necessary.

- Adopt Department-wide overtime reduction goals to reinforce management's commitment to lower costs in this area.

Recommendation

1. **The Department implement stricter overtime controls and centrally monitor compliance.**

Work Schedule Rules

The Department has established rules regarding limits on the amount of hours that can be worked within certain time frames. These rules are important in that they help ensure staff are physically and mentally capable of performing their functions. They also help control the County's liability for stress and other compensation claims by employees, as well as claims from other parties for negligence and malpractice.

The rules prohibit employees from working more than 10 consecutive days, working more than 96 hours of overtime during a month, working more than 19 consecutive hours, and working a regular shift plus four or more overtime hours on two consecutive days.

During our review, we noticed various instances where the work rules were exceeded. The Sheriff should reinstruct staff regarding the requirement to comply with the work schedule rules and institute monitoring procedures to ensure compliance. The monitoring procedures can be implemented in conjunction with the overtime monitoring reports discussed in the previous recommendation.

Recommendations

2. **The Department reinstruct staff regarding the requirement to comply with its work schedule rules.**

3. **The Department implement monitoring procedures to ensure the rules are complied with.**

Budget Variances

As previously indicated, the Department internally allocates a portion of its salary and employee benefit budget to overtime. It then allocates the overtime budget to the various divisions within the Department. The budgeted amounts, at least for the last two years, have been exceeded by relatively large amounts and every division has exceeded its budget.

The Sheriff's procedure of establishing an overtime budget is a valid management tool. However, its effectiveness has been minimized because the amount budgeted does not appear reasonable based upon actual performance.

While we realize the great difficulty in estimating an overtime budget for a public safety organization that must respond to unpredictable disasters and other major incidents, an effort should be made to establish a budget that is a more realistic goal for the various managers to attempt to achieve. In addition, a more reasonable budget amount will improve the effectiveness of the overall budget monitoring process by aligning the budget to the areas where funds are actually being spent.

Recommendation

4. **The Department re-evaluate the amount budgeted for overtime.**

Vacancies

Hiring new employees to offset overtime charges is often not cost effective because the pattern of overtime need does not always coincide with the additional hours provided by a new employee. However, because of the large amount of overtime being worked in the Department, the potential exists that hiring additional staff in certain instances can reduce overtime hours by the full-time hours of the additional employees and achieve cost savings for the Department. Overtime is generally paid at 150% of base salary. An additional employee costs approximately 128% of base salary for sworn personnel and approximately 125% for non-sworn personnel, including incremental employee benefits.

The Department should evaluate overtime usage to determine if additional employees will result in overtime reductions greater than the cost of the additional employees. In those instances where it is cost effective, additional employees should be hired.

Recommendation

5. **The Department evaluate overtime usage and reduce overtime by hiring additional employees in those instances where it is cost effective.**

Payroll System Access

Like other County Departments, the Sheriff utilizes the County-wide Timekeeping and Payroll Personnel System (CWTAPPS) to process its payroll. Department personnel input data into the system which then determines the amount employees are paid. It is important that access to the system be limited in order to reduce the possibility of fraud. In addition, access should be limited because the system contains confidential employee information.

We noted that the Sheriff does not regularly review who has access to the system and that certain personnel had access that should not have. The following are examples:

- Over 30 personnel have access but have never utilized the system and have no need to utilize it.
- Certain personnel have the ability to change system data but only need the ability to view data.
- Certain timekeepers have the ability to input and change their own payroll data. We also noted an instance where a timekeeper had access to their spouse's records.
- Personnel who are no longer timekeepers still have access and can input into the system.
- Internal audit staff have the ability to change records.

To improve controls, the Department should review which personnel currently have access to the system and eliminate from the security tables those who have inappropriate access. Procedures should be changed to preclude timekeepers from processing their own or their relatives payroll and having access to their payroll information in CWTAPPS. The Department should also develop procedures to ensure access security tables are changed when staff assignments change and when staff leave service. Periodic reviews of the security files should also be performed to detect inappropriate access.

Recommendation

6. **The Department implement stricter controls to restrict access to payroll records.**

Bonuses

A brief review of bonuses disclosed that ineligible personnel were receiving bonuses. The following are examples of problems noted:

- Individuals continuing to receive bilingual bonuses for years after they had changed to positions that do not qualify for bonuses.

J. TYLER McCAULEY
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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June 25, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley by PJM
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT FOLLOW-UP REVIEW**

At the Audit Committee's request, we have followed up on our two 1997 Fiscal Audit reports and the 1997 KPMG Management Audit of the Sheriff's Department (Sheriff). Our follow-up review was intended to assess the Sheriff's progress in implementing 34 recommendations from the prior reports in key areas including budget, procurement, revenue billing and collection, payroll, and management.

In April 2002, your Board asked us to review the Sheriff's contract processing/ monitoring. Because that request relates to seven contracting recommendations from our prior audits, we will include the status of those recommendations in our report on the Sheriff's contract processing/monitoring.

Fiscal Audit Recommendations

We found that the Sheriff has implemented only six out of the 26 Fiscal Audit recommendations reviewed. As a result, significant departures from County policies and required internal controls continue to exist. The following are examples of the problem areas and the results of non-compliance.

Collections

The Sheriff has improved the collection process for contract city billings. However, it is not requiring the cities to pay the late payment penalties required by the contracts. This has resulted in the loss of approximately $900,000 for this fiscal year (FY).

The Sheriff plans to start requiring up-front deposits for security services provided to private parties in July 2002. However, the Sheriff only plans on requiring deposits from film companies and not other parties. Deposits help ensure charges are collected.

Payroll

We noted various issues/problems continue to exist in the Sheriff's payroll operations.

- A relatively large number of staff continue to work large amounts of overtime. In FY 2000-01, ten sergeants earned over $50,000 in overtime, compared to none in FY 1997-98. In addition, we estimate that over 700 employees will work in excess of 650 hours of overtime this fiscal year. While these instances do not represent violations of County or Sheriff rules, they do indicate the continuing need to monitor and take action to reduce overtime.

- Overtime is sometimes not pre-approved as required. This may contribute to the Sheriff's Department exceeding their budgeted overtime. The Sheriff has exceeded their budget for overtime in three of the last four fiscal years. The amount of excess overtime has ranged from $15 million to $44 million a year.

- Work schedule rules have been made more lenient rather than strengthened. For example, the Sheriff increased the number of consecutive days that can be worked from 10 to 12 and increased the number of hours an employee can work in excess of their regular shift.

- The Department still does not utilize timecards as other County departments do. This results in inefficient payroll processing and increases the risk of error.

- Overpayments related to workers' compensation continue to occur. We tested ten workers' compensation cases and noted that four had overpayments totaling $5,969.

Procurement

The Department is still not always complying with County procurement requirements.

- The Sheriff made 105 purchases over $5,000 without the required ISD approval. It appears that some purchases were split to stay within purchasing limitations.

- Payments were made without documentation that the goods were received. In the case of one payment voucher with 13 invoices, one invoice was paid without proof the goods/services were received. For the other 12 invoices, the amounts paid exceeded the amounts on the receiving documents.

- Personnel were performing incompatible functions. For example, in three instances, the same employee ordered and received the goods. This lack of controls can result in inappropriate purchases/payments.

Fiscal Review Summary

Many of the problems that existed in 1997 have not been corrected. The Sheriff's Department needs to place a higher priority on implementing prior recommendations in order to bring its fiscal operations into compliance with County policies and procedures. Our findings indicate opportunities to increase revenue and control overtime. The non-compliance in procurement indicates that the Sheriff needs to take action to ensure appropriate oversight and accountability, including processing purchases through ISD when required, competitive bidding to minimize cost and internal controls to reduce the risk of purchasing irregularities.

KPMG Management Audit

We reviewed eight of the 38 recommendations from the 1997 KPMG Management Audit and noted that, for the most part, the Sheriff had addressed, or is in the process of addressing, the recommendations. The most significant audit finding was the civilianization of sworn positions. The Sheriff has reclassified numerous sworn positions and filled them with civilian employees.

Details of the results of our review are included in Attachment I to this report. We discussed the results of our review with Sheriff management. Their response (Attachment II) indicates general agreement with the results of our review, and that the Sheriff will develop plans to address the partially implemented recommendations.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:JS
Attachment

c: David E. Janssen, Chief Administrative Office
Leroy D. Baca, Sheriff
Joan Ouderkirk, Director, ISD
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee

reviewed the 17 accounts referred to the TTC on November 26, 2001 and noted that the accounts were delinquent an average of 208 days at the time of referral. We also noted that the Department does not make the required number of contacts before referring the accounts to the TTC.

In addition, we received conflicting information from staff and management regarding the Department's procedures for processing and writing-off uncollectible accounts. To ensure that the Department processes uncollectible accounts in accordance with management's expectations and the CFM, the Department should establish criteria, and procedures, for determining uncollectible accounts and referring them to the TTC.

Recommendation 17 April 15, 1997 Interim Report

The Sheriff perform an annual review of accounts receivable and write off uncollectible accounts.

Current Status: PARTIALLY IMPLEMENTED

Our follow-up review indicated that the Sheriff had reduced its delinquent accounts for private entities for services provided in prior years from $455,000 down to approximately $38,000. This reduction in delinquent private entity invoices indicates that the Sheriff has improved its year-end write off efforts. However, the Department does not adequately document the write-off process.

Revenue management indicated that at the end of the fiscal year, the billing section supervisors review the accounts receivable ledger and determine which accounts are uncollectible. The supervisors then e-mail the Department's Data Systems Bureau with a list of accounts that should be removed from the Department's financial system. However, payment documents for accounts that are written off are maintained in the same files as all other payment documents for the accounts, and the Department could not provide the e-mail list of the accounts written off. Therefore, we could not verify which accounts were written off or whether it was appropriate to write off the accounts.

Payroll

Recommendation 1 July 7, 1997 Final Phase Report

The Department implement stricter overtime controls and centrally monitor compliance.

Current Status: PARTIALLY IMPLEMENTED

In our initial report, we noted that most of the overtime approval and monitoring was delegated to lower level management, with limited central monitoring. As a result, we previously noted that a significant number of Sheriff personnel worked large amounts of overtime.

Our follow-up discussions with management and review of payroll procedures indicate that unit commanders must approve all overtime and supervisors must pre-approve the overtime. In addition, the Sheriff summarizes and discusses overtime usage during a weekly meeting with the Division Chiefs. In January 2002, the Department also assembled a group to further review overtime at various units/divisions and provide recommendations for reducing overtime costs.

However, it appears that additional efforts are needed. We generated a listing of overtime earnings for Sheriff's employees and noted:

- Ten sergeants earned over $50,000 in overtime in FY 2000-01, compared with none in FY 1997-98. In addition, based on overtime worked from July 1, 2001 to December 31, 2001, it appears that 13 sergeants will earn over $50,000 in overtime in FY 2001-02.

- Based on a straight-line projection, it appears that over 700 employees will work over 650 hours of overtime in FY 2001-02 compared to 346 staff in FY 1997-98. This represents a 102% increase. Six-hundred fifty hours equals approximately four months of full-time work.

While not policy violations, the above examples suggest the Department should more closely monitor overtime. In addition, management should ensure overtime is approved. Specifically, we selected 25 high overtime earners from four pay locations, and noted that:

- Three overtime earners had overtime slips that were approved with a signature stamp rather than being signed.

- Two overtime slips did not have a supervisor's signature.

Further, 3 of the 25 (12%) overtime slips were not properly entered into County-Wide Timekeeping and Payroll/Personnel System (CWTAPPS). Specifically, we noted that:

- One of the 25 overtime earners was overpaid since the clerk entered the overtime hours as "paid" rather than "saved".

- One of the 25 overtime earners was overpaid 5 hours, since the employee's overtime hours on CWTAPPS exceeded the hours indicated on the overtime slips.

- One of the 25 overtime earners was underpaid 8 hours, since the employee's hours on the overtime slips exceeded the amount of hours indicated on CWTAPPS.

report of violations. The report would be issued to the in-charge commander for discussion/follow-up.

<u>Recommendation 12 July 7, 1997 Final Report</u>

The Department implement an independent centralized payroll processing and monitoring function incorporating all timekeepers and which is supervised by staff with a payroll and compliance monitoring background.

<u>Current Status:</u> PARTIALLY IMPLEMENTED

Our prior recommendation was based on the need to have payroll staff report to someone who is knowledgeable in payroll/payroll processing.

Our follow-up review noted that approximately 50% of the timekeepers at the various units still report to the unit commander rather than Personnel Administration. This could make it difficult for timekeepers to enforce payroll rules and issue violations to unit staff.

<u>Recommendation 4 July 7, 1997 Final Report</u>

The Department re-evaluate the amount budgeted for overtime.

<u>Current Status:</u> PARTIALLY IMPLEMENTED

In our initial report, we noted that the Sheriff's overtime budget did not appear reasonable compared to actual expenditures.

The Sheriff indicated that beginning with the FY 1998-99 budget, overtime was estimated based upon prior year actual expenditures, adjusted by anticipated hiring to reduce overtime required to backfill vacant positions. However, as illustrated below, the Sheriff under-budgeted overtime in three of the last four years.

Fiscal Year	OVERTIME BUDGET	OVERTIME ACTUAL	OVERTIME OVER/<UNDER> BUDGET
2001-02 (projected)	$ 80 million	$ 95 million	$ 15 million
2000-01	90 million	110 million	20 million
1999-2000	109 million	103 million	<6 million>
1998-99	52 million	96 million	44 million

For FY 2000-01, Sheriff management indicated that it under-budgeted overtime due to unanticipated promotions of approximately 200 Sergeants causing additional overtime to cover deputy shift vacancies. In addition, management indicated that they underestimated overtime expenditures for court appearances, tactical operations and investigations.

<u>Recommendation 5 July 7, 1997 Final Report</u>

The Department evaluate overtime usage and reduce overtime by hiring additional employees in those instances where it is cost effective.

<u>Current Status:</u> PARTIALLY IMPLEMENTED

Sheriff management indicated that the Department Executive Planning Council meets weekly and evaluates overtime usage often. They have determined that the Department can achieve overtime cost savings by hiring additional personnel to fill vacancies, primarily in the Custody and Court Services Divisions.

In an effort to fill these vacancies, the Sheriff implemented an aggressive recruiting campaign and hired approximately 1,350 recruits between July 1999 and March 2001. However, management indicated that, due to the limited number of qualified candidates, they are unable to fill all of the vacancies required to achieve the maximum cost savings. The Sheriff also indicated that some overtime is due to the inability to fill non-sworn positions because of the County hiring freeze.

<u>Recommendations 7 & 8 July 7, 1997 Final Report</u>

The Department conduct a review to identify all unjustified bonuses and eliminate them.

The Department annually review bonuses to ensure only eligible staff receive them.

<u>Current Status of Recommendations 7 & 8:</u> IMPLEMENTED

Sheriff management indicated that, in June 1998, the Personnel Administration Audit Training Unit began requiring all Divisions to provide annual justification of any "Special Bonuses". This resulted in the elimination of approximately 220 bonuses. In addition, the Sheriff requires quarterly justification by the Division Chiefs for all bonuses. We selected a sample of 25 employees receiving bonuses (ten employees receiving bilingual bonuses and five employees for three other bonuses) and noted that the Department had appropriate justification for the bonuses.

<u>Recommendation 9 July 7, 1997 Final Report</u>

The Department require employees and supervisors to sign time cards.

<u>Current Status:</u> PARTIALLY IMPLEMENTED

The County Fiscal Manual states that time records must include employee names, employee numbers, total hours worked each day, and daily variances (sick, vacation, etc.). In addition, employees must certify their time by completing and signing their time

COUNTY OF LOS ANGELES
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J. TYLER McCAULEY
AUDITOR-CONTROLLER

August 3, 2000

To: Audit Committee

From: J. Tyler McCauley
Auditor-Controller

Subject: **Sheriff's Department: Status of Audit Recommendations**

As directed by the Board, the Auditor-Controller has been reporting on the Sheriff's progress in implementing recommendations from the Auditor-Controller's 1997 Fiscal Audit reports and the KPMG Management Audit report. As of our most recent status report, issued on December 23, 1999, we identified certain recommendations in key areas including payroll, contracting, centralized purchasing, and pharmacy controls that required the Sheriff to take additional action and/or provide more complete descriptions of actions the Department had taken. This review focused on those key recommendations. This is our seventh report.

FINDINGS/ISSUES

Payroll

Timecards

The audit recommended that the Department require employees and supervisors to sign timecards. County Fiscal Manual section 3.1.6 states that time records must include employee names, employee numbers, item numbers, total hours worked each day, and daily variances (sick, vacation, etc.). In addition, employees must certify the accuracy of their reported time by completing and signing their time records in ink. Employee supervisors must also certify the accuracy of employee time reported by signing employee records in ink.

The Department has taken steps to monitor compliance with timekeeping requirements. Specifically:

- In April 1999, the Personnel and Training Division sent a memo to all Division Chiefs and Directors instructing them to ensure that all timecards are signed by employees and the employees' supervisors, and that all timecards contain employee first and last names, employee numbers, and item numbers.

- In June 1999, the Audit and Training Unit conducted a review of all departmental units to verify compliance with time reporting requirements. This review disclosed many of the same issues discussed later in our report. The review results were communicated via e-mail from the Offices of the Department-Wide Commanders to all the units asking them to take corrective action in their areas of non-compliance. The units were asked to report back once corrective actions were completed. A follow-up review is planned in the middle of August 2000.

- On an ongoing basis, centralized payroll staff review timecards for errors and periodically send violation notices to unit supervisors. These notices are also sent to the Audit/Training Unit for monitoring purposes.

The Department also indicated that they are pursuing alternative automated time reporting solutions, including purchasing an Enterprise Resource Planning system.

Timecards – Current Status

We reviewed timecards at 14 primary units/sheriff stations and found that the Department is not always utilizing adequate, standardized timecard forms. Several of the timecard formats we observed are actually work assignment schedules which identify information such as vehicle assignments, shift schedules, and radio numbers. As a result, these schedules do not provide space or columns for required information including hours worked (five units), variances (five units), supervisor signatures (three units), employee numbers (three units), and item numbers (six units). These schedules are generally prepared by unit/station supervisors or by unit timekeepers. They are not prepared by the employees themselves.

Out of the 14 units reviewed, we noted 15 different timecard formats being used. Three units were using multiple forms to record timecard information, one form for most required information and another for daily variances and signatures.

Due in part to the lack of standardized timecard forms, we noted several units are not in compliance with Fiscal Manual requirements. Specifically, we noted instances where:

- Employees and employees' supervisors were not signing timecards.
- Supervisors were approving their own timecards.
- Employees were not recording their variances.
- Employees were not recording the total hours worked each day.
- Employees were not indicating their employee numbers.
- Employees were not appropriately signing in and out for their time, as required by Department policy,

Details of our timecard findings are included in Attachment 1.

Department managers told us that, particularly for patrol units, it is not practical for employees to prepare and complete timecard forms. However, we noted several patrol units were in fact using appropriate timecards. In addition, as we previously reported, seven of ten law enforcement agencies we contacted utilize timecards similar to those required by the County Fiscal Manual.

While the efforts described above are a start, and an automated timekeeping system may help minimize problems in the long term, the above findings indicate that the Sheriff has not effectively implemented the use of timecards at a significant number of locations.

Overtime/Variance Approvals

The Department requires that all overtime be pre-approved and all variances be approved in writing on separate overtime and variance authorization forms. We reviewed overtime/variance approvals at four units (which included 18 sub-units such as detective, patrol, etc.) and noted:

- Overtime was worked without approval by one or more employees at three of the four units reviewed (7 / 18 sub-units). In addition, overtime was pre-approved but was not coded on the employee's timecard by one or more employees at three of four units reviewed (4 / 18 sub-units).
- Variances were not always approved for one or more employees at all four units reviewed (8 / 18 sub-units).

Payroll Worksheets

We noted duplication of work when entering time information on CWTAPPS. The Department's timecards are not used as CWTAPPS source documents. Rather, the information from the Department's various timecards is manually recorded on "payroll worksheets" by the timekeepers. These payroll worksheets are essentially master timecards and are used to enter time information on CWTAPPS. The Department indicated that the worksheets are needed to track employee leave balances and attendance records, and to consolidate the information from the various timecard formats. However, as indicated in Fiscal Manual Section 3.1.6, leave balances are automatically maintained on CWTAPPS and therefore, master timecards are not necessary. In addition, attendance records are also available on CWTAPPS. Finally, if timecard forms are standardized and improved in the areas described above, the worksheets will not be needed for timecard consolidation purposes.

Timekeeping Centralization

The audit recommended that the Department centralize timekeepers. The Department believes that this is not feasible and that they have implemented sufficient alternative controls. For example, the Department has provided the unconsolidated timekeepers with a technical supervisor, who provides the timekeepers with training, technical support, back-up timekeepers, and revisions to policies and procedures. The technical supervisor does not, however, supervise the unconsolidated timekeepers and therefore, does not review any of their work. The unconsolidated timekeepers keep and file all the their own timecards without management oversight. While performing our timecard testwork, we noted that unconsolidated units' timecards generally contained more errors than consolidated units' timecards. Of 14 units' timecards we reviewed, six were consolidated and eight were unconsolidated. We found that the unconsolidated units' averaged 7.5 timecard errors while the consolidated units averaged only 4.2 errors.

The Department indicated they recently began exploring the centralization of timekeepers. We encourage the Department to continue these efforts. Centralization will provide added timekeeper independence and improve overall payroll controls and accuracy.

Overtime

The Department's overtime costs are not increasing as rapidly as in past fiscal years. Based on CWTAPPS reports, FY 99/00 overtime was $102.7 million, an increase of only $6.8 million (7%) over FY 98/99 overtime of $95.9 million. In comparison, FY 98/99 overtime increased $27.2 million (40%) over FY 97/98 overtime of $66.9 million. In addition, the Department met its FY 99/00 budget of $109 million.

The Department is continuing its recruiting efforts of hiring and training 1,350 deputies by March 2001. The Department is also reporting that they have filled all of their vacancies in the custody division, the largest portion of the Sheriff's overall overtime expense.

Payroll Performance Evaluations

The audit recommended that the Department incorporate compliance with required payroll procedures into managers' performance evaluations. The Department indicates that compliance with payroll procedures is continually monitored by the Department's Audit and Training Unit and units are notified of any areas of non-compliance. Raters and reviewers can use this information when preparing performance evaluations. In the past, the Department stated they do not plan to include payroll compliance into managers' performance evaluations as recommended. However, during this review, managers told us they would work towards ensuring managers' performance evaluations include comments on payroll compliance when significant problems are identified.

Pharmacy Controls

The audit recommended strengthening controls at the Central Jail Pharmacy. In our last follow-up, we reported the Department had taken steps to improve pharmacy controls including enhancing their on-line ordering system to require passwords and access codes, restricting drug ordering capabilities to registered pharmacists, separating pharmacy duties, implementing a standard filing system and enhancing physical security. However, our previous follow-up review also identified areas where controls could be improved further including supervisory approvals of drug orders, enhanced inventory records for certain drugs, and enhanced physical security of the pharmacy. We focused our review for this follow-up on those key areas.

In our previous follow-up, we observed that keys were left in the controlled substance cage unattended for a short time period. During this review, we noted the controlled substance area was adequately secured. We noted that physical security of the pharmacy was restricted to pharmacy personnel and controlled substances were restricted to registered pharmacists.

In our previous follow-up we noted that the pharmacy did not maintain perpetual inventory records for prescription drugs other than controlled substances. We noted that this was still the case. The Department indicated that they are in the process of implementing an automated system that would track the inventory balances for all prescription drugs.

Our previous follow-up disclosed that supervisory approvals were not required for on-line drug orders. During this review we noted that all drug orders are now made by high-level pharmacists. However, secondary approvals are not required. According to management, the vendor's on-line ordering system does not provide for on-line approvals. The Department should consider establishing dollar thresholds and requiring secondary written approvals for drug orders that exceed established thresholds.

Contract Evaluations

The audit recommended the Department improve contract evaluation documentation. In our last follow-up, we noted that, while the Department had improved its contract evaluation process, the Department's contract evaluation committees' consensus of final contractor recommendations was not always well documented.

We reviewed two recently let contracts and found that the contract evaluation committees' consensus was not well documented. Department management agreed to continue working to improve documentation in this area.

Centralization of Specialized Unit Purchases

The audit recommended that the Sheriff centralize the purchasing processes for four specialized units, Aero Bureau, Medical Services, Scientific Services and Facilities Management. The Department has centralized purchasing for Facilities Management. The Department does not plan to centralize the purchasing process for the Aero Bureau, Medical Services, and Scientific Services.

The Department believes that centralizing these highly technical units would result in a major organizational change and would negatively impact the current operational structure.

As an alternate control for the Aero Bureau, the Department has established agreements with 15 vendors to provide various aircraft maintenance and repair services. These agreements will limit non-agreement purchases and ensure that the Department obtains pre-established prices for those services. We reviewed ten recent purchases at the Aero Bureau and noted that staff were properly using the agreement vendors and were following County and Department purchasing standards.

We also reviewed ten drug purchases made at the Medical Service Bureau and found that six of ten purchasing files did not include an order requisition confirmation report used by the pharmacy to ensure they received the goods that were actually ordered. The pharmacy needs to ensure that purchasing files contain all relevant purchasing documents.

Scientific services was reviewed in a previous follow-up and found to be following County and Department purchasing standards.

Review of Report

We discussed the issues contained in this report with Department management who, except as noted above, generally agreed with our conclusions. We would like to thank Departmental staff and managers, all of whom were very helpful during our review.

If you have any questions, please call me or Pat McMahon at (213) 974-0301.

JTM:PTM:MP

c: Sheriff's Department
    Leroy D. Baca, Sheriff
    William T. Stonich, Undersheriff
    Sharon Bunn, Director, Office of Administrative Services
  David E. Janssen, Chief Administrative Officer

Attachment 1

Sheriff's Department: Status of Remaining Audit Recommendations

Detailed Timecard Findings

We reviewed timecards at 14 primary units/sheriff stations (units). Within the 14 units there were 86 sub-units (e.g. patrol, detective, administrative, etc.). We reviewed April 2000 timecards for ten units, and June 2000 timecards for an additional four units.

We noted the following areas where employees/supervisors were not completing their timecards in accordance with County Fiscal Manual requirements:

- Employees were not always signing their timecards at 13 of 14 units reviewed (32 / 86 sub-units). For one sub-unit, none of the employees signed their timecards, the other 31 sub-units varied from one to ten missing signatures.

- Supervisors were not always approving timecards at six of 14 units reviewed (13 / 86 sub-units). For eight of the 13 sub-units, none of the employee time cards were approved by supervisors. For three sub-units, some of the employee timecards did not have supervisory approval. The last two sub-units were using stamps of the supervisors' names.

- Supervisors were approving their own timecards at 13 of the 14 units reviewed.

- Employees were not always appropriately signing in and out for their time, as required by Department policy, at 11 of 14 units reviewed (14 / 86 sub-units). Six of the sub-units had time-in and time-out pre-printed on some of their timecards. Two other sub-units had time in/out filled in by the same person for all of the employees. For the remaining six sub-units, employees were either: not signing in or out at all, were signing in but not out, or were signing out but not in.

- Employees were not always indicating the total hours worked each day at nine of the 14 units tested (18 / 86 sub-units). For seven of the 18 sub-units, none of the employees indicated the total hours worked. For eight others, some of the employees did not indicate the total hours worked. For two others, the total hours were filled in by the same person for all employees. The remaining sub-unit had the total hours worked pre-printed on their timecards.

- Employees were not always recording their variances (sick, vacation, etc.) at six of the 14 units reviewed (11 / 86 sub-units). As a result, we could not determine whether some employees actually worked on certain days. At five of the sub-units, none of the employees recorded their variances. At the remaining six units, some of the employees did not record their variances.

- Employees did not indicate their employee numbers at three of the 14 units (4 / 86 sub-units), nor their item numbers at 6 of the 14 units (15 / 86 sub-units).

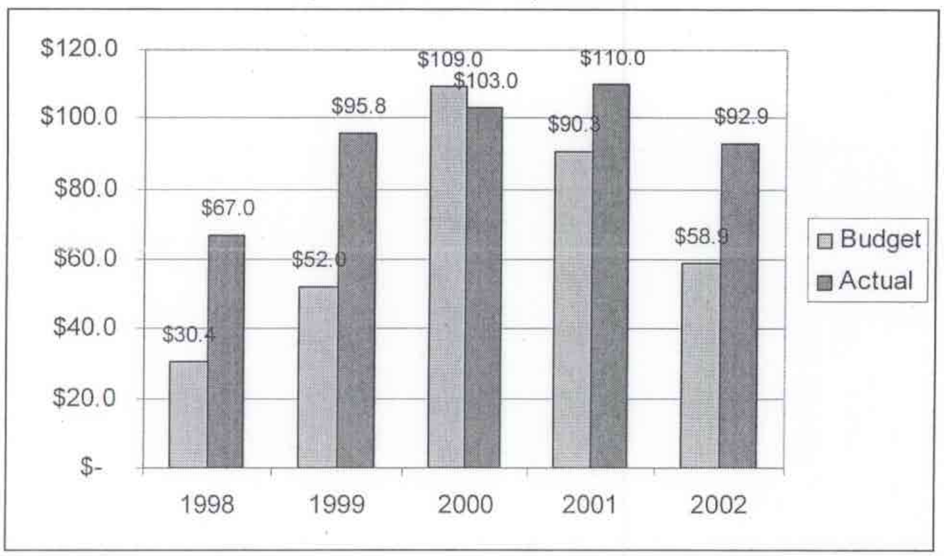
OVERTIME EXPENDITURES

During the five years analyzed (FY 1997-98 to FY 2001-2002) the LASD spent between $67 million and $110 million on overtime annually. The following exhibit shows the Department's budgeted and actual expenditures for overtime.

LASD OVERTIME

Total Overtime Expenditures

(FY1997-98 to FY 2001-02) In Millions



Source: Expenditure Status by Minor Object Report for FY 1997-1998 to FY 2001-2002

As this exhibit demonstrates, total overtime expenditures increased over 40 percent from FY 1998 to FY 1999. For the next two years, overtime expenditures increased 8 percent and 7 percent. Overtime expenditures then decreased by 15 percent in FY 2002.

In four of these five years, the Department exceeded the amount budgeted for overtime by substantial amounts. The Department spent an average of 38 percent more on overtime than what was budgeted during the five-year period.

APPROACH TO BUDGETING OVERTIME

Finding 3: The LASD did not have an accurate approach or method for projecting Departmental overtime resource needs during the five year review period.

The LASD's approach to budgeting overtime is admittedly a "best guess" approach. The amount of overtime expended in past years is considered, as well as base level assumptions such as the number of projected vacancies. For example, the overtime budget was reduced for FY 2001 from the actual expenditure level for FY 2000 due to vacancies being filled and staff increases.

It was assumed that the amount of overtime would automatically be reduced given the additional staffing. Actual expenditures did not decline as assumed. Budgeted overtime was further reduced for FY 2002 also based on the assumption that filled positions would result in reduced overtime expenditures. Although total overtime expenditures declined, they did not decline nearly to the budgeted level.

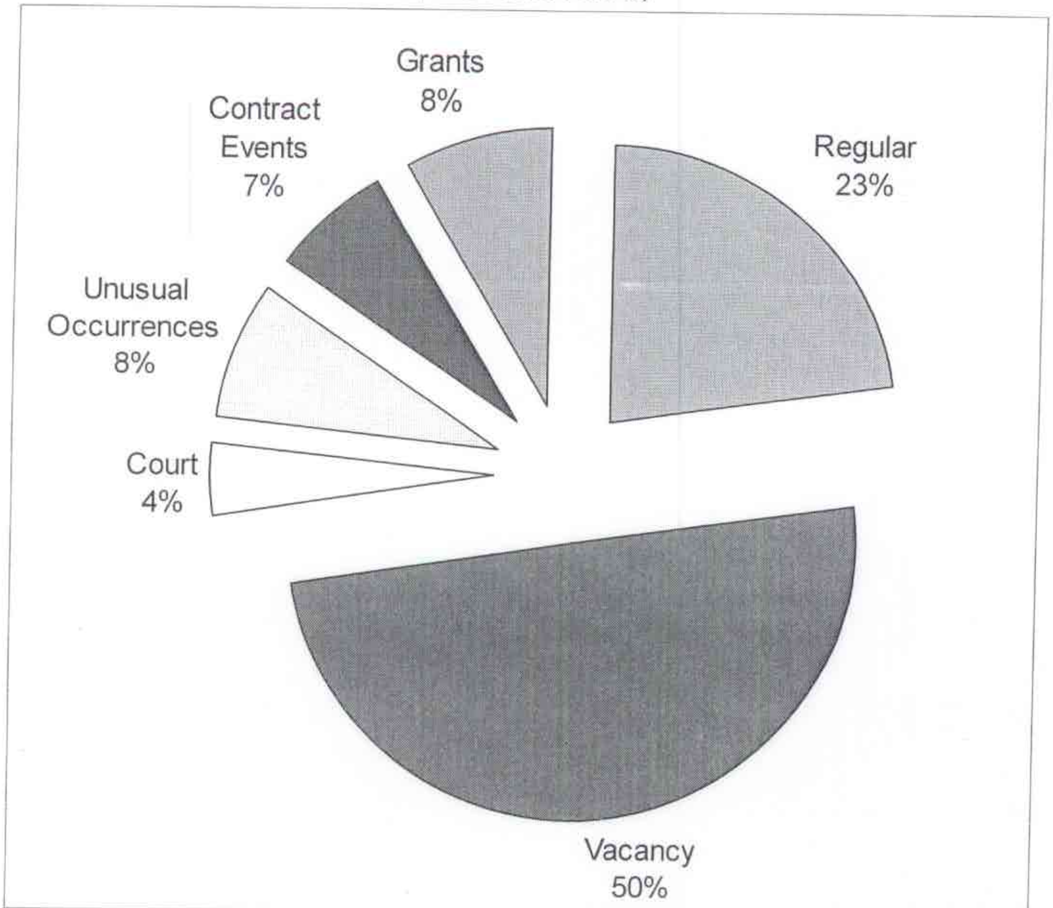
Overtime Expenditures by Type of Overtime

One reason the Department has not been able to accurately predict its budgetary need for overtime is that overtime is budgeted as a total number. Overtime is actually used for several different purposes. The following exhibit shows the different types of overtime used by the Department, and the percentage of total overtime for each type.

LASD OVERTIME

Percentage of Overtime Expenditures by Type of Overtime

(FY1997-98 to FY 2001-02)



Source: Sheriff's Department Funds Reports – Sworn and Civilian Paid Overtime Worked by Division for FY 1997-1998 to FY 2001-2002, April 2003

Each of these types of overtime is described as follows:

Regular Overtime

Regular overtime includes all overtime that is routinely part of an organization. This includes overtime incurred when someone works over to complete something in progress at the end of a shift. For example, a patrol deputy may be in the middle of handling a call for service or completing an arrest when their shift ends. A court bailiff may work over because court is extended beyond normal shift end. Investigators may work over to file a criminal case to avoid releasing a suspect in custody. Administrative personnel may work over to complete a special or time-sensitive project.

The cost of regular overtime is a cost that is included in the determination of contract rates charged to cities, school districts, the MTA, and others the Department provides services to under contract. A portion of the revenue collected for these services reimburse the Department for its overtime expenses incurred. During the five-year period (FY 1998—FY 2002) the LASD was reimbursed $23.2 million for contract service overtime, amounting to approximately 5.4 percent of its total overtime expenditures.

Many of the Department's personnel attend training on overtime, or overtime is paid for someone else to fill in for another attending training to avoid staff shortages in essential areas. Most of this training is required, including regular firearms qualification. A substantial portion of the overtime related to training is reimbursed by the State. Specifically, the Standards for Training for Corrections (STC) Program reimbursed the LASD for overtime related to its training programs. During the five year period (FY 1998—FY 2002) the LASD was reimbursed $14.2 million for overtime related to this training, amounting to approximately 3.2 percent of its total overtime expenditures.

Vacancy Overtime

Vacancy overtime includes overtime incurred by persons covering a position that is vacant due to someone leaving the Department, being sick, on leave, on loan to another unit, or injured on duty.

Court Overtime

Court overtime includes overtime incurred by LASD personnel appearing and testifying in court regarding an incident or arrest they were involved in. This includes both actual court time and time standing by or on call to appear in court.

Unusual Occurrences Overtime (Emergency)

Unusual occurrence, or emergency overtime includes overtime incurred in responding to unusual emergencies such as natural disasters, riots, demonstrations, etc. It also includes overtime for such things as attending funerals of LASD personnel killed in the line of duty. Unusual occurrences are declared and logged by the Emergency Operations Bureau, which determines who is involved in each occurrence and tracks overtime spent.

Contract Events Overtime

Contract events overtime is charged when the LASD provides security or other services to contract events including parades, marathons, and film productions. Because these are limited term events, staffing them with full-time positions would not be practical. These events are typically staffed using overtime. Event sponsors reimburse the LASD for the overtime costs incurred. During the five-year period (FY 1998 through 2002) the LASD spent and was reimbursed $31 million on special event overtime, amounting to approximately 7 percent of its total overtime expenditures.

Grants Overtime

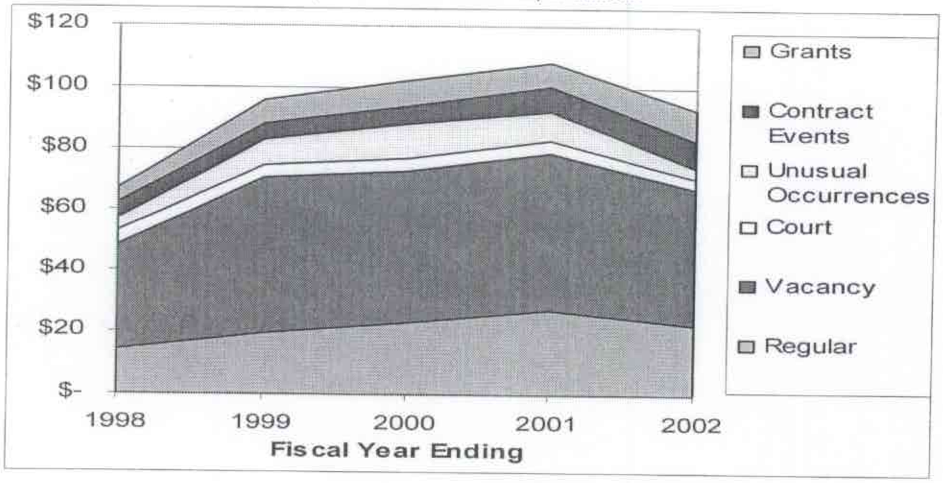
Overtime is often used to fulfill the requirements of limited term grants. This avoids hiring of permanent personnel that may no longer be needed when the term of the grant has ended. During the five-year period (FY 1998 through 2002) the LASD spent $36.6 million of grant funds on overtime, amounting to approximately 8 percent of its total overtime expenditures.

The following exhibit shows trends in Department overtime expenditures for FY 1997-98 through FY 2001-02 by type of overtime.

LASD OVERTIME

Total Overtime by Type

(FY1997-98 to FY 2001-02) In Millions



	Regular	Vacancy	Court	Unusual Occurrences	Contract Events	Grants	Total
1998	$14.3	$34.2	$4.7	$4.1	$5.3	$4.4	$67.0
1999	$19.7	$50.7	$4.4	$8.2	$5.4	$7.6	$96.0
2000	$23.0	$50.2	$3.8	$11.1	$6.0	$8.5	$102.6
2001	$27.3	$51.7	$3.9	$9.3	$8.1	$7.8	$108.1
2002	$22.4	$44.6	$3.6	$3.8	$8.6	$9.8	$92.7
Total	$106.6	$231.4	$20.4	$36.5	$33.4	$38.0	$466.3
Percent	23%	50%	4%	8%	7%	8%	100%

Source: Sheriff's Department Funds Reports, Swom and Civilian Paid Overtime Worked by Division

(An analysis of overtime expenditures by budget unit is included in Appendix C of this report.)

Finding 4: The primary cause for significant budget variances in overtime is the lack of an accurate method or approach for projecting Department overtime resource needs as part of the budget process.

As discussed in the previous section, the Department does not have an accurate approach or method for projecting the overtime resource needs of the Department. As a result, the amounts budgeted for overtime did not reflect the amount needed.

We identified a number of causes or reasons for increased overtime expenditures through analyzing the actual overtime expenditures of the Department. These may provide both improved understanding of the Department's overtime expenditures, and provide a basis for improving projections of Department overtime resource needs.

Finding 5: Increased overtime expenditures and variances from the budgeted overtime amounts are largely the result of increases in salaries, increases in staffing, expansion of services, increases in overtime spent on unusual occurrences or emergencies, and increases in overtime reimbursed through grants and contract events.

Each of these is discussed in the following sections.

Increases in Salaries

Average salaries for LASD employees increased 12.4 percent during the five-year period from FY 1997-98 to FY 2001-02. Since overtime is typically paid on a time and one-half basis, the impact of these salary increases on overtime would be 18.6 percent. Approximately $12.6 million of the increased overtime expenditure during the five years is attributable to negotiated salary increases.

Increases in Staffing

The number of full time equivalent (FTE) employees working for the Department increased by 2,050, from 12,813 in FY 1998 to 14,863 in FY 2002. This is an increase of 16 percent. Additional employees unavoidably drives up the amount of regular or routine overtime expended due to increased training requirements for additional employees, and the time these employees spend completing tasks in process at the end of their shift.

Expansion of Services

During the five-year period the LASD expanded services substantially. This includes the opening of the Palmdale substation, new contracts with Hawaiian Gardens, Compton, and the MTA, and the opening of the Twin Towers facility. Committing resources to these new areas created vacancies throughout the Department. A large percentage of these vacancies occurred in the Custody Division of the Department. The opening of the Twin Towers facility created a substantial demand for personnel. In addition, Custody Operations provides the entry point for deputies hired by the Department. When expansions are made in patrol or other areas requiring deputies those required deputies are most often transferred from the jails or custody operations.

This creates vacancies in the jails, which have a substantial number of fixed post positions, which must be filled through overtime. Hiring and training new personnel to fill these vacancies can take up to two years.

Increase In Overtime Spent On Unusual Occurrences / Emergencies

Overtime expenditures for unusual occurrences, or emergencies, increased substantially during the five-year period. In FY 1998, the Department expended $4.1 million in overtime related to these emergencies. This amount doubled to $8.2 million for FY 1999, increasing again to $11.1 million for FY 2000. Approximately $9.3 million in overtime was spent on emergencies in FY 2001, declining substantially to $3.8 million for FY 2002.

According to the log of unusual occurrences maintained by the Emergency Operations Bureau, numerous natural disasters, demonstrations, high profile crimes, efforts to prepare for or prevent incidents related to Y2K and terrorist acts occurred during this time period.

Increases In Overtime Reimbursed Through Grants and Contract Events

Overtime fully reimbursed by grants or providing services to contract events such as parades, marathons, and other special events, increased substantially during the five-year period. In FY 1998, the Department had approximately $9.7 million in grant or contract reimbursed overtime. This increased to $13 million for FY 1999, $14.5 million for FY 2000, $14.9 million for FY 2001, and $18.4 million for FY 2002.

Recommendation 2: The LASD should consider developing a model for accurately projecting the Department's overtime resource needs.

Such a model should incorporate each specific type of overtime, including operational or routine overtime, overtime for attending training, preparing for or testifying in court, responding to unusual occurrences, filling in for vacant positions, staffing contract events, and working on grant funded programs.

The factors underlying the need for each type of overtime should also be specifically identified. For example, the training that will require staff attendance outside their normal shift, or will require others to work in place of those attending training, should be specifically identified. Vacant positions that must be staffed through overtime should be specifically identified and the overtime required to staff those positions should be calculated. Similarly, the amount of overtime required to cover essential positions during staff vacations, sick time, injury time, and other related causes should be specifically identified and included in the model.

Unusual occurrences/emergencies that resulted in the use of overtime should be reviewed and analyzed to develop a base overtime budget for these occurrences. A contingency amount should also be developed that can be accessed if the frequency or severity of such occurrences justifies.

Recommendation 3: The LASD, in coordination with the CAO, should consider budgeting and tracking reimbursed overtime expenditures incurred in providing services to contract events, or in meeting grant requirements, separately from other overtime. The budget amounts for reimbursed overtime should be flexible to not discourage the use of this overtime.

The LASD provides essential support for events such as parades, marathons, filmings, and other special events. The overtime related to these services are fully reimbursed. The annual amount of contract event overtime is not completely predictable. The Department must be somewhat flexible to meet the needs of events developed or planned during the course of the year.

The Department also uses fully reimbursed overtime to meet the requirements of limited term grants. It must be somewhat flexible to take advantage of grant opportunities during the course of the year. Unplanned increases in fully reimbursed contract event or grant overtime can result in the Department exceeding its budget for overtime. Budgeting this overtime separately, with flexible budget amounts, allows the Department to respond to contract event needs and grant opportunities without negatively impacting the regular overtime budget.

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ALAN T. SASAKI
AUDITOR-CONTROLLER

October 13, 1999

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavksy
Supervisor Michael D. Antonovich

From: Alan Sasaki
Auditor-Controller

Subject: **DHS' CONSOLIDATED BUSINESS OFFICE - ACCOUNTS RECEIVABLE WRITE-OFF AND ADJUSTMENT REVIEW**

Attached is our report on accounts receivable write-offs and adjustments at the Department of Health Services' (DHS) Consolidated Business Office (CBO). The CBO performs the billing and patient accounts receivable functions for LAC+USC Medical Center (LAC+USC), Martin Luther King, Jr./Drew Medical Center (King/Drew) and High Desert Hospital.

The CBO bills all Medi-Cal and Medicare inpatient accounts. Medi-Cal and Medicare outpatient accounts and all private insurance accounts are billed by Health Management Systems, Inc., (HMS) a contract billing agency. During FY 1997-98, HMS processed approximately 11% ($211 million) of the CBO's accounts receivable total billings. Self-pay accounts are referred to various collection agencies for identification of third party resources and/or further collection efforts.

The primary objective of our review was to determine if the CBO has established sufficient procedures and controls to prevent inappropriate account receivable write-offs and adjustments. Because accounts receivable represent potential revenue, any adjustments to accounts receivable should be reviewed for appropriateness.

Executive Summary

The CBO appears to have appropriate controls and procedures over most of the accounts receivable adjustments and write-offs. For example, we noted that accounts written-off due to billing inefficiencies are minimal. We did note areas where the CBO could make improvements. Most of the improvements needed are on accounts assigned to HMS.

Following are some of the areas where improvements can be made:

- **The CBO needs to monitor the adjustments and collection activity of accounts assigned to HMS. For example:**

  - Accounts assigned to HMS are not reconciled to ensure that all accounts are appropriately processed/billed. Without a reconciliation, the CBO does not know if adjustments to the accounts receivable system are accurate and if all accounts are accounted for.

  - Accounts assigned to HMS should be tested on a sample basis to ensure that accounts are processed appropriately and timely. While HMS is only paid for accounts collected on, HMS' efforts should still be monitored to ensure that accounts are billed/processed timely and revenues are maximized.

  - HMS should be instructed to report unpaid charges (e.g., Medi-Cal denials) requiring write-off to the CBO for management's review/approval and subsequent referral to TTC for write-off, if appropriate. For example, when the State denies outpatient Medi-Cal accounts, HMS adjusts the accounts off the accounts receivable system. These adjustments are not reviewed/approved by the CBO or transferred to TTC for write-off.

  - Collection activity on private insurance accounts processed by HMS is not monitored by the CBO. HMS adjusts private insurance accounts off the accounts receivable system for processing. Therefore, the CBO has no mechanism to monitor the collection activity or ensure that all accounts are dispositioned.

- **Additional controls need to be established to ensure Treatment Authorization Request (TAR) forms are processed timely and submitted to the CBO so that Medi-Cal charges can be billed.**

  Medi-Cal will not reimburse inpatient services provided to Medi-Cal patients without an approved TAR. The TAR documents the number of days approved for Medi-Cal reimbursement. Four of the ten accounts we reviewed were written off because a TAR form was not obtained. CBO appropriately requests/monitors outstanding TARs. However, 59% (or about $3.3 million) of the LAC+USC accounts written off during FY 1997-98 because of billing time limits were written off because TARs were not being received by the CBO.

- **The CBO needs to monitor unbilled Medi-Cal accounts more closely to ensure that all potentially billable accounts are billed.**

  We reviewed ten inpatient Medi-Cal accounts that were written off because the time limit for billing was exceeded. Three accounts had all the documents needed to bill Medi-Cal. Therefore, all three accounts should have been billed. Improved monitoring of unbilled accounts by the CBO could result in additional revenues being realized.

These and other issues along with our recommendations are discussed in more detail in the attached report.

Acknowledgement and Response

We thank the CBO management and staff for their cooperation and assistance during our review. DHS' response, attached, indicates that they have taken or are taking the recommended corrective actions.

ATS: PTM:KM
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Public Information Officer
Department of Health Services
Mark Finucane, Director
Art Bernal, Consolidated Business Office
Gary Wells, Director of Finance
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Audit Committee

Los Angeles County
Department of Health Services

Consolidated Business Office

Accounts Receivable Adjustment and Write-Off Review

October 13, 1999

Prepared by:
Department of Auditor-Controller

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Department of Health Services
Consolidated Business Office
Accounts Receivable Adjustment/Write-off Review

Background

The Department of Health Services (DHS) uses the McKesson HBOC (formerly known as Huff, Barrington, Owens and Company) system to manage its accounts receivable (hereafter referred to as the A/R system). During FY 1997-98, DHS' six hospitals reported charges of $3.2 billion for inpatient and outpatient services. Almost $2.3 billion (72%) of the $3.2 billion in charges were subsequently adjusted or written off. Adjustments are made to reduce patient charges for amounts that should not be billed/collected [e.g., to reduce charges to patients' liability amounts as determined under the Ability-to-Pay (ATP) program]. Accounts receivable write-offs are made when charges are not collectible (e.g., because billing time limits were exceeded or when collection efforts have been exhausted).

Most of these adjustments/write-offs to patients' charges are required by State regulations and/or County policies. For example, almost one-half (or about $1 billion) of the adjustments were made to reduce charges for Medi-Cal contractual allowances (i.e., the difference between actual hospital charges and the Medi-Cal reimbursement rate). Another $526 million (23%) of the adjustments were required reduced patient charges as determined under the ATP program. Other types of adjustments/write-offs include denied Medi-Cal days/charges and accounts transferred to outside agencies for billing/collections efforts.

Generally, accounts that are determined to be uncollectible (e.g., Medi-Cal accounts that have exceeded the billing time frames) are removed from the hospitals' A/R system and transferred to the Treasurer and Tax Collector (TTC) for write-off. (The Medi-Cal contractual allowance adjustments and ATP program write-offs are not transferred to TTC.) Self-pay accounts are initially referred to an outside collection agency for further collection efforts. Once these collection efforts are exhausted, the accounts are referred to TTC for write-off or further collection efforts. TTC is responsible for writing off accounts, which are deemed uncollectible, within Board approved guidelines.

Scope and Objectives

We focused our review at DHS' Consolidated Business Office (CBO). The CBO performs hospital billing and accounts receivable functions for LAC+USC Medical Center (LAC+USC), Martin Luther King, Jr./Drew Medical Center (King/Drew) and High Desert Hospital. These three hospitals generate about 65% of DHS' hospital charges.

The primary objective of our review was to determine if the CBO has established sufficient procedures and controls to prevent inappropriate account receivable write-offs and adjustments. We evaluated the monitoring tools used by management to track adjustments and write-off activity. Our review included the examination, on a sample basis, of patient accounts and discussions with the CBO management and staff regarding write-off and adjustment procedures.

We noted significant adjustments related to a contract billing agency, Health Management Systems, Inc. (HMS). Therefore, we also reviewed these adjustments and the monitoring of the billing services provided by HMS.

Health Management Systems, Inc.

DHS contracts with HMS to provide various billing, accounts receivable and consulting services. For instance, HMS bills all Medi-Cal and Medicare outpatient accounts for the CBO. In June 1996, we issued an audit report on HMS. The report contained recommendations for the CBO to improve the monitoring of HMS activity and their overall effectiveness in appropriately dispositioning referred accounts. During our current review, we noted that the CBO has not developed effective mechanisms to monitor HMS, as discussed in the following sections.

Reconciliation of Accounts Assigned to HMS

Patient accounts assigned to HMS are adjusted off the A/R system. For instance, all Medi-Cal and Medicare outpatient accounts are "pulled"/adjusted off the A/R system by HMS for billing. Once HMS bills these accounts, the total amount billed (not individual accounts) is posted to a control account on the A/R system. The CBO does not reconcile amounts "pulled" by HMS to amounts billed/processed by HMS.

HMS provides the CBO with monthly reports that summarize the total number of billed and unbilled accounts and the corresponding charges. However, the CBO does not review or reconcile the information to the A/R system. This increases the risk of inaccurate A/R information and unbilled or missing accounts. In fact, during our review of several significant and/or unusual accounts receivable adjustments initiated by HMS, the CBO staff were either unable to explain the adjustments because HMS did not provide adequate support or staff indicated that the adjustments were not accurate due to HMS posting errors.

Recommendation

1. **The CBO reconcile HMS activity to the A/R system and follow up on any discrepancies to ensure the accuracy of A/R data and to ensure that all accounts are billed/processed.**

Monitoring of HMS

The CBO does not review accounts assigned to HMS to ensure that accounts are processed appropriately and timely. While HMS is only paid for accounts collected on, HMS' efforts should still be monitored to ensure revenues are maximized. While it is not cost-effective to review all accounts, a sample of accounts should be selected to ensure accounts are billed/processed appropriately and timely. For example, a review of individual accounts will show whether accounts are billed timely and/or transferred timely for further collection efforts or write-off. (HMS refers some accounts to an outside collection agency for further collection efforts. This is discussed further in the next section.)

The summary reports currently provided by HMS are not sufficient for these monitoring purposes. The CBO needs to obtain individual account information to monitor HMS' billing and collection activity.

Recommendation

2. **The CBO develop procedures to monitor the effectiveness of HMS' billing and follow-up activity by reviewing accounts assigned to HMS, on a sample basis, to ensure accounts are processed appropriately and timely.**

Denials on Accounts Assigned to HMS

If Medi-Cal or Medicare denies a claim and the account cannot be re-billed, HMS adjusts the charges off the A/R system. Claims can be denied for various reasons (e.g., the time limit to bill has expired or services are not covered, etc.). Depending on the reason for the denial, the patient may or may not be responsible for the charges. For example, if a Medi-Cal claim is denied because the time limit to bill had expired, the patient is not responsible for the charges (i.e., hospital responsible denials). However, if the claim is denied because the patient is not eligible for Medi-Cal benefits, then the patient may be responsible for the charges (i.e., patient responsible charges).

HMS refers patient responsible charges to the USCB, Inc. (formerly known as United States Credit Bureau), an outside collection agency, for further collection efforts. DHS contracts with USCB for collection services on self-pay accounts. Hospital responsible denials should be referred back to the CBO for management's approval of the write-off. However, HMS does not report hospital responsible denials to the CBO. This prevents the CBO from reviewing/approving denied accounts and identifying accounts that need to be referred to TTC for write-off.

We also noted that HMS records all Medi-Cal denials under adjustment code 23 and all Medicare denials under adjustment code 24, regardless of the reason for the denial. DHS has established various adjustment codes to identify the type of denial. The CBO should ensure that denied Medi-Cal/Medicare charges are identified by reason for the denial and coded appropriately on the A/R system. In addition, the CBO should monitor denials on HMS assigned accounts to identify any unusual trends/fluctuations in denials. For example, a significant increase in denials due to billing time limits may indicate that HMS is not processing billings timely.

Recommendations

3. **The CBO instruct HMS to return denials requiring write-off (i.e., hospital responsible denials) to the CBO for management's review/approval and referral to TTC for write-off when appropriate.**

4. **The CBO require HMS to use the appropriate code when adjusting denied claims on the A/R system and monitor denials on HMS assigned accounts for unusual trends/fluctuations.**

Monitoring of USCB Referrals

HMS provides the CBO with monthly reports of accounts referred to USCB. The CBO staff compiles the data from the monthly reports into a summary report for the last three fiscal years. However, this report is not used to monitor the trend of accounts referred to USCB. Significant fluctuations in referrals should be investigated to ensure the reason for the fluctuation is appropriate/reasonable.

Recommendation

5. **The CBO investigate significant fluctuations in the number of accounts transferred to USCB by HMS for appropriateness.**

Private Insurance/Prepaid Health Plans

HMS also performs the billing functions for all commercial insurance accounts, including prepaid health plans (PHP) in which Medi-Cal and/or Medicare participants assign their Medi-Cal and/or Medicare benefits to an HMO. The CBO needs to improve the monitoring of these accounts, as discussed below.

Prepaid Health Plan (PHP)/Medi-Cal

The CBO's PHP Unit monitors PHP/Medi-Cal accounts to ensure accounts are billed timely and revenue is maximized. Accounts over $55,000 are reviewed if they remain unbilled after 30 days. However, accounts under $55,000 are not reviewed unless they are unbilled for over 360 days. State policy requires PHP/Medi-Cal accounts to be billed within 60 days from discharge. Therefore, effective monitoring needs to occur on all accounts as they are nearing the allowable billing time frame.

PHP Unit staff indicated that unbilled accounts over 60 days are most likely due to untimely adjustments by HMS to change the account status from unbilled to billed. However, without monitoring, the CBO cannot ensure that accounts are billed timely and/or classified appropriately.

Recommendation

6. **The CBO revise the PHP Unit's procedures to ensure that PHP/Medi-Cal accounts are billed within the State required timeframe (i.e., 60 days from discharge).**

Private Insurance

HMS adjusts private insurance accounts off the A/R system for billing. These accounts are not posted to a control account when the accounts are billed, as are Medi-Cal and Medicare outpatient accounts. Since these accounts are no longer on the A/R system, the CBO has no mechanism to monitor the collection activity or ensure that all accounts are dispositioned. The CBO needs to develop a mechanism to monitor collection activity to ensure that revenue is maximized and that all accounts are dispositioned.

Private insurance payments are posted to a control account when received. The related accounts are identified and re-established on the A/R system at the exact amount of the payment (not the original charges). Therefore, unpaid amounts (e.g., contractual adjustments, denied charges) are not recorded on the A/R system. As a result, private insurance adjustments/write-offs are understated on the A/R system. Additionally, accounts are not referred to TTC for write-off when appropriate.

Recommendations

7. **The CBO develop procedures to monitor collection activity on private insurance accounts and follow-up on accounts that are outstanding for an excessive time.**

8. **The CBO ensure that unpaid charges on private insurance accounts (e.g., contractual adjustments, and denied charges) are accurately reported on the A/R system.**

9. **The CBO refer private insurance accounts to TTC for write-off when appropriate.**

CBO Adjustments and Write-offs

Monitoring of Unbilled Accounts

During FY 1997/98, the CBO wrote-off $5.7 million in Medi-Cal charges at LAC+USC and King/Drew because billing time frames were exceeded. While this is only .7% of total Medi-Cal billings, improved controls over unbilled Medi-Cal accounts can further minimize these write-offs.

We reviewed ten inpatient Medi-Cal accounts that were written off because the billing time limit was exceeded to determine if the write-offs were appropriate and authorized and if improvements could be made. The ten write-offs tested had been authorized by management, and had been appropriately written off the A/R system and referred to TTC as required. However, improved monitoring of unbilled accounts by the CBO's Billing Unit might have prevented the write-off of four of these ten accounts, as discussed below:

- Three accounts had all the documents needed to bill Medi-Cal. One account (with charges of $788,000) was billed, but not until after the time frame to bill Medi-Cal (i.e., one year) was exceeded. The other two accounts were awaiting the required Treatment Authorization Request (TAR) forms. However, even after receipt of the TARs, these accounts (with total charges of $367,000), were not billed. Adequate follow-up by the Billing Unit would likely have prevented these write-offs, and the accounts could have been collected.

- One account was originally pending Medi-Cal eligibility. Once Medi-Cal eligibility was established, the required billing documents were not requested and the account (with $80,000 in charges) was never billed.

The CBO lost potential revenue (approximately $114,000) by not effectively monitoring these unbilled accounts. All four accounts had charges of more than $77,000. Such high dollar accounts should be monitored more closely. The Billing Unit Manager stated that they recently implemented new monitoring procedures that will address the problems noted. The CBO management should ensure that the procedures are implemented and effective in ensuring that accounts are billed timely.

Recommendation

10. The CBO management ensure that effective monitoring procedures for unbilled Medi-Cal accounts have been implemented to ensure that accounts are billed timely.

TAR Delays

Medi-Cal will not reimburse inpatient services provided to Medi-Cal patients without an approved TAR. The TAR documents the number of days approved for Medi-Cal reimbursement based on the necessity of the medical services provided. Four of the ten accounts we reviewed were written off because a TAR form was not obtained.

We determined that the CBO appropriately requests/monitors outstanding TARs. However, we also noted that according to an activity report prepared by the CBO, 59% (or about $3.3 million) of the LAC+USC accounts written off during FY 1997-98 because of billing time limits were written off because TARs were not being received by the CBO. In comparison, the CBO reports that only 21% of King/Drew accounts are written off for this reason.

The internal control report (issued on June 18, 1999) prepared in conjunction with the annual audit of the County's financial statements also noted an inordinate number of missing TAR forms at LAC+USC. This report contained recommendations to reduce the number of outstanding TAR forms. DHS' response to these recommendations indicates that actions are being taken to correct the problem. Accordingly, we will again review this area in the future.

Use of Adjustment/Write-off Codes

Each write-off and adjustment to accounts receivable is coded. DHS Revenue Management has established guidelines for using the various write-off and adjustment codes. These codes should be used uniformly by each hospital. When appropriately applied, the coding process allows management to monitor write-offs and adjustments by reason. Inconsistent use of adjustment codes prevents management from effectively comparing adjustments among facilities. In February 1999, DHS Revenue Management updated the standardized adjustment codes.

During our review, we noted several instances of adjustment codes being used inconsistently. DHS Revenue Management stated that facilities should have implemented the updated adjustment index at the beginning of FY 1999-00. However, there was no required deadline for implementation. Based on discussions with DHS hospitals, most stated that they have implemented the updated adjustment codes. To ensure that all facilities use adjustment/write-off codes uniformly, DHS should require all facilities to implement the updated adjustment codes and monitor for consistent use and unusual fluctuations.

Recommendation

11. DHS Revenue Management require all facilities to implement the updated adjustment codes and monitor for consistent use and for unusual fluctuations.

AR REPORT.KM.DOC

MARK FINUCANE, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-8101

October 5, 1999

TO: Alan T. Sasaki
Auditor-Controller

FROM: Mark Finucane
Director of Health Services

SUBJECT: **CONSOLIDATED BUSINESS OFFICE - ACCOUNTS RECEIVABLE WRITE-OFF AND ADJUSTMENT REVIEW**

Attached is our response to the Auditor-Controller Audit Branch's review of the accounts receivable write-offs and adjustments at the Department of Health Services' Consolidated Business Office.

We concur with your recommendations and have taken or are taking action as recommended.

If you have any questions or require additional information, please let me know or your staff may contact Sachi Hamai at (213) 240-7901.

MF:sm

Attachment

c: Fred Leaf
Gary Wells

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUBJECT: **CONSOLIDATED BUSINESS OFFICE (CBO) ACCOUNTS RECEIVABLE (A/R) WRITE-OFF AND ADJUSTMENT REVIEW**

AUDITOR-CONTROLLER RECOMMENDATION #1

The CBO reconcile Health Management Systems, Inc., (HMS) activity to the A/R system and follow-up on any discrepancies to ensure the accuracy of A R data and to ensure that all accounts are billed processed.

DHS Response

We concur. Effective with the July 1999 billing cycle, the CBO has eliminated the control account process for Outpatient (O/P) Medi-Cal and Medicare accounts. As a result, HMS processing activity will be within the A/R system parameters. Since all accounts will be on the A/R system and monitored for timely processing, a reconciliation will no longer be necessary. Control accounts established prior to July 1999 will be closed by February 1, 2000. The CBO will implement enhanced account processing procedures and billing protocols for HMS and will assign additional staff to ensure HMS' billing and processing is appropriate and timely.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #2

The CBO develop procedures to monitor the effectiveness of HMS' billing and follow-up activity by reviewing accounts assigned to HMS, on a sample basis, to ensure accounts are processed appropriately and timely.

DHS Response

We concur. The CBO will implement enhanced procedures to monitor HMS' effectiveness in billing and follow-up. The CBO will perform periodic sampling to ensure HMS is processing accounts appropriately and timely.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #3

The CBO instruct HMS to return denials requiring write-off (i.e., hospital responsible denials) to the CBO for management's review/approval and referral to TTC for write-off when appropriate.

DHS Response

We concur. HMS was instructed on July 7, 1999 to create listings of denials requiring write-off and to provide them to the CBO for review. The CBO will refer accounts to TTC and/or adjust the accounts, as appropriate. CBO will also implement denial protocol/processing guidelines for HMS which will outline actions to be taken by HMS and the CBO to properly disposition all accounts which have been denied.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #4

The CBO require HMS to use the appropriate code when adjusting denied claims on the A/R system and monitor denials on HMS assigned accounts for unusual trends/fluctuations.

DHS Response

We concur. Elimination of control account use (see DHS Response to Recommendation #1) will address this issue. However, in addition, the CBO will implement enhanced protocols which will indicate the A/R codes to be used by HMS and the CBO when adjusting denied claims. The CBO will also work with HMS to develop a monthly trend report to monitor all denials.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #5

The CBO investigate significant fluctuations in the number of accounts transferred to USCB by HMS for appropriateness.

DHS Response

We concur. The CBO will prepare a monthly report on all accounts transferred to USCB. This report will identify and explain any significant fluctuation.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #6

CBO revise the PHP Unit's procedures to ensure that PHP/Medi-Cal accounts are billed within the State required time frame (i.e., 60 days from discharge).

DHS Response

We concur. The CBO will work with HMS and the facilities' Patient Financial Services and Medical Records operations to implement enhanced procedures to help further ensure that PHP/Medi-Cal accounts are billed within the State required time frames. The PHP Unit will be responsible for monitoring each area's compliance with the procedures.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #7

The CBO develop procedures to monitor collection activity on private insurance accounts and follow-up on accounts that are outstanding for an excessive time.

DHS Response

We concur. The CBO will implement enhanced procedures to monitor collection activity on private insurance accounts, including timely follow-up, and to ensure that all the accounts are on the A/R system.

Target Implementation Date: February 1, 2000

AUDITOR-CONTROLLER RECOMMENDATION #8

The CBO ensure that unpaid charges on private insurance accounts (e.g., contractual adjustments, and denied charges) are accurately reported on the A/R system.

DHS Response

We concur. The CBO will implement procedures to ensure that unliquidated insurance accounts are properly dispositioned (referred to TTC or written-off the A/R) and are accurately reported on the A/R system.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #9

The CBO refer private insurance accounts to TTC for write-off when appropriate.

DHS Response

We concur. The CBO will implement enhanced procedures to ensure that unliquidated insurance accounts are properly dispositioned (referred to TTC or written-off the A/R) and are accurately reported on the A/R system. The CBO will also instruct HMS to timely return private insurance accounts which are no longer collectible so these accounts can be referred to TTC and/or an outside agency for further collection efforts.

Target Implementation Date: December 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #10

The CBO management ensure that effective monitoring procedures for unbilled Medi-Cal accounts have been implemented to ensure that accounts are billed timely.

DHS Response

We concur. The CBO will implement enhanced procedures to help ensure unbilled Medi-Cal accounts are billed timely. In addition, a senior staff person will be assigned to review all aged inpatient accounts nearing statute to ensure all possible actions have been taken to recover revenue.

Target Implementation Date: November 1, 1999

AUDITOR-CONTROLLER RECOMMENDATION #11

DHS Revenue Management require all facilities to implement the updated adjustment codes and monitor for consistent use and for unusual fluctuations.

DHS Response

We concur. Revenue Management will review the facilities' adjustment index in order to validate compliance with the standardize codes. Revenue Management will also monitor selected adjustment codes for unusual fluctuations.

Target Implementation Date: December 1, 1999

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

July 27, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES – DELINQUENT SELF-PAY ACCOUNT COLLECTIONS**

On March 13, 2001, your Board instructed the Auditor-Controller to review the collection practices of the Department of Health Services (DHS) for delinquent self-pay accounts. This report contains the results of that review.

Our review included evaluating collection practices at DHS, the Treasurer and Tax Collector (TTC) and USCB, DHS' outside collection agency. We examined a sample of patient accounts and interviewed management and staff regarding financial screening and collection procedures. We also contacted five other counties (Alameda, San Bernardino, San Francisco, Santa Clara and Maricopa, AZ) to identify collection practices that might be beneficial to DHS.

Summary of Findings

For self-pay accounts, we noted a lack of standardized collection procedures at DHS facilities. Specifically, we noted that DHS facilities differ in the timing and number of bills sent to patients and when accounts are referred to USCB. As a result, patients at some DHS facilities may not receive a bill until five months after an inpatient stay. We also found that DHS facilities do not consistently track self-pay collection results.

DHS Administration should evaluate the various facility billing policies and procedures to determine the most effective practices and develop and implement consistent policies and procedures among DHS facilities. At a minimum, DHS facilities should send one bill to self-pay patients before referring the accounts to the outside collection agency and evaluate if additional billings are warranted. Additionally, facilities should bill potential self-pay patients (i.e., pending Medi-Cal and ATP applicants) while PFS is working the account. Since lengthy delays at PFS are frequently due to patients not providing needed information timely (e.g., paycheck stubs, bank statements, etc.), a bill would inform patients of the outstanding charges and could encourage patients to apply for third-party coverage.

We also found that DHS does not accumulate or monitor self-pay collection data. As part of DHS' evaluation of self-pay collection efforts, DHS Administration should require the facilities to consistently track and report self-pay collection rates. This information can be used by DHS to assess the effectiveness of facility collection efforts.

In comparison with the other counties surveyed, we found that DHS relies more heavily on the outside collection agency. The other counties conduct more timely and frequent in-house collection efforts, while DHS, in many cases, does not make any in-house collection effort on self-pay accounts. While it is difficult to meaningfully compare collection rates because of differences in how the rates are calculated and other variables, we did note that two of the five counties reported collection rates similar to DHS, while the three other counties reported higher collection rates. DHS' collection rate may be lower than other counties due to DHS' emphasis on qualifying patients for Medi-Cal. This may result in fewer collectible self-pay accounts, but more third party collections by DHS.

The following are examples of inconsistencies among DHS facilities and other areas where improvements can be made:

- Olive View Medical Center (OVMC) and the Consolidated Business Office (CBO), which handles billing for three DHS facilities (LAC+USC, King/Drew and High Desert), do not make any collection efforts on inpatient accounts before referring them to USCB. Harbor/UCLA sends one bill before referring the accounts. According to Harbor/UCLA management, collections from the billing are minimal. However, the bill prompts some patients to contact the facility to apply for Medi-Cal. Subsequent to our review, DHS Administration notified all facilities to send at least one bill to all self-pay patients before referring the accounts to UCSB.

  All five of the other counties we contacted send at least three bills to the patients before referring the account for further collection efforts.

- The timeframe for referring self-pay inpatient accounts to USCB differs significantly among facilities. For example, Harbor/UCLA and OVMC generally refer accounts to the collection agency approximately one month after the date of service, while CBO generally refers accounts approximately five months after the date of service. CBO management indicated that they refer accounts once the accounts are received from the facilities' financial screening units. The timing of referrals to USCB should allow facilities time to identify third-party coverage and to attempt to collect on the account before it is referred to the collection agency. However, referrals should also be made as soon as possible to maximize the chances for collection.

The timing of the inpatient referrals at the other counties we contacted ranged from 100 to 180 days after the date of service. However, these counties also bill the accounts at least every 30 days before they are referred to the collection agency or county department for collection. CBO and OVMC do not send bills during this period.

- Based on our review of the facilities accounts receivable reports, 7% of H/UCLA's self-pay accounts and 5% of LAC+USC's self-pay accounts are over one year old. The total charges on H/UCLA and LAC+USC accounts over one year old are $4.2 million and $2.2 million, respectively. These accounts have not yet been referred to USCB. We reviewed ten self-pay accounts at both H/UCLA and LAC+USC that were more that six months past the date of service and found that seven (70%) of the accounts at H/UCLA and four (40%) of the accounts at LAC+USC should have been referred to USCB. DHS management needs to ensure that facilities monitor self-pay accounts and refer accounts to the outside collection agency timely.

- CBO does not send a bill for outpatient services until 30 days after the end of the month when the self-pay patient was seen. Therefore, if a patient is seen early in the month of service, it could take up to 60 days from the date of service until the patient receives a bill. Harbor/UCLA sends an initial bill 16 days after the end of the month of service. According to DHS management, these timing differences are due to variations in the facilities' bill processing. The five counties we contacted send an initial bill between five and 18 days after the date of service.

- DHS facilities do not offer payment plans to allow self-pay patients to pay off the accounts over time. DHS facilities refer accounts to USCB even if the patient is making voluntary payments on the account. USCB will then establish payment plans for the patients. All five counties we contacted offer payment plans to their patients.

Once USCB exhausts its collection efforts, it transfers the remaining accounts to TTC. Because of the age of these accounts and the fact that USCB's previous collection efforts have failed, TTC's collections on these accounts are minimal and it is possible that these collection efforts are not cost-effective. We have recommended that DHS and TTC further evaluate this matter.

Acknowledgement and Response

We discussed our report with DHS and TTC management who generally concurred with the findings and recommendations. DHS plans to respond to our recommendations within 45 days. We thank DHS and TTC management and staff for their cooperation and assistance during our review.

If you have any questions, please call me at (213) 974-8301 or Pat McMahon at (213) 974-0729.

JTM:PTM:KM
Attachments

c: David E. Janssen, Chief Administrative Officer
Fred Leaf, Acting Director, Department of Health Services
Mark Saladino, Treasurer and Tax Collector
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee

Department of Health Services
Delinquent Self-Pay Account Collections

Background

Patients who do not have third-party resources (e.g., Medi-Cal, Medicare, private insurance, etc.) are responsible for the cost of the medical care provided at the Department of Health Services (DHS) facilities. These patients (and their related charges) are referred to as self-pay. However, patients without third-party coverage may qualify for the County's low cost or no cost programs (i.e., the Ability-to- Pay Plan, the Pre-payment Plan, etc.). Under these plans, some or all the patient's charges may be forgiven.

Approximately 18% of DHS inpatients are self-pay, approximately 57% have third-party coverage (primarily Medi-Cal) and about 13% have zero liability under the County's Ability-to-Pay Plan. The remaining 12% are grant-funded and other payers. Information on outpatient payer percentages was not readily available.

The County's outside collection agency collects approximately 4% of charges from self-pay patients. In fiscal year (FY) 1999-2000, self-pay collections were approximately $22 million. DHS focuses its collection efforts on third-party payers that generate over $450 million in annual revenue.

Scope and Objectives

On March 13, 2001, the Board instructed the Auditor-Controller to review DHS' revenue collections, specifically collection of delinquent self-pay accounts. We reviewed the collection procedures at DHS, the Treasurer and Tax Collector (TTC) and USCB, the outside collection agency used by DHS. We also contacted five other counties (Alameda, San Bernardino, San Francisco, Santa Clara and Maricopa, AZ) to identify other practices that might be beneficial to DHS. Our review was intended to determine if improvements can be made in DHS' collection practices.

At DHS, we conducted our review at Harbor/UCLA Medical Center (H/UCLA), Olive View Medical Center (OVMC) and DHS' Consolidated Business Office (CBO). CBO performs patient billing and accounts receivable functions for LAC+USC Medical Center (LAC+USC), Martin Luther King, Jr./Drew Medical Center (King/Drew) and High Desert Hospital (HDH). Our review included examining a sample of patient accounts and discussions with management and staff regarding financial screening and collection procedures. Our review excluded Rancho Los Amigos National Rehabilitation Center (RLANRC) because, as a rehabilitation center, RLANRC has a much higher proportion of Medi-Cal patients and fewer self-pay patients than other DHS facilities.

Overview of Collection Process

DHS uses both internal and external resources in its collection efforts. Below is an overview of these efforts.

Financial Screening

When a patient is treated at a DHS facility, Patient Financial Services (PFS) or other staff screen the patient to determine if the patient has, or is eligible for, third-party coverage (e.g., Medi-Cal, Medicare, etc.), the County's Ability to Pay Plan or other programs that would reduce the patient's liability.

DHS places significant emphasis on identifying and qualifying patients for third-party coverage, mainly Medi-Cal, since these payers provide the largest amount of revenue for the Department. To assist in these efforts, the State has granted DHS a waiver to solicit and process Medi-Cal applications from patients in its facilities, unlike some other counties where the department of public social services is responsible for these activities.

DHS also uses a variety of outside resources and private vendors to identify eligibility and process applications for third-party resources. If the patient does not qualify for one of these programs, the patient will be classified as self-pay. It appears that DHS' attempts to identify third-party resources for patients are appropriate.

During registration and screening, DHS staff obtains patient demographic and financial information, such as verification of address, employment information and income, which can be used in the collection process. PFS then sends this information to the facility's billing unit for billing and collection.

Billing and Collection

Once an account is classified as self-pay (i.e., after the financial screening process is completed), DHS makes the following collection efforts:

- For inpatient accounts, CBO and OVMC do not make any collection efforts on inpatient accounts before referring them to USCB. Harbor/UCLA sends one bill before referring the accounts.
- For outpatient accounts, CBO does not send a bill until 30 days after the end of the month when the patient was seen. Therefore, if a patient is seen early in the month of service, it could take up to 60 days from the date of service until the patient receives a bill. Harbor/UCLA sends an initial bill 16 days after the end of the month of service. Additional billings are sent every 15 days for the next 75 to 90 days.

- If the patients do not respond to these bills, DHS refers the accounts simultaneously to USCB and various Medi-Cal Resource Development and Recovery Services (MRDRS) contractors. The MRDRS contractors make further attempts to identify third-party resources including advocacy services for Medi-Cal applicants and attendance at Medi-Cal Fair Hearings. These contractors have 20 days to accept accounts the agency wants to continue to pursue for third-party coverage. After this 20-day period, USCB will initiate its collection efforts on the accounts.

  The timing of the referrals to USCB varies depending on the facility. The referral timeframe generally ranges from one to five months after the date of service.

Outside Collection Agency

After the facilities complete their billing efforts, if any, they refer the accounts to USCB. USCB uses a variety of resources in its efforts to collect outstanding self-pay accounts, such as accessing credit reports and database searches to determine the patient's current address, employer, income sources, assets and potential eligibility for Medi-Cal. USCB conducts the following collection activities.

- Sending collection letters immediately upon receipt of the account and every thirty days thereafter.
- Making follow-up telephone contacts.
- Arranging payment plans.
- Attempting to identify any third-party coverage and assisting the patient in the application process.
- Pursuing litigation on some high dollar accounts.

If its collection efforts are not successful, USCB refers the accounts to TTC within 180 days of receipt, or within 10 days of USCB's decision to stop collection efforts. USCB's collection rate is approximately 4% on inpatient accounts and 2% on outpatient accounts.

Treasurer and Tax Collector

Upon receipt of the accounts from USCB, TTC sends one final collection letter and performs a match against the State's employment information system to determine if the patient is able to pay for the services. Based on the age of these accounts and previous collection efforts, TTC's collection on these accounts is minimal.

Comments and Recommendations

Collection Policies and Procedures

DHS does not have standard self-pay collection policies and procedures. As a result, there are many differences in the collection practices among the facilities. For example, the number and frequency of patient billings varies among the facilities and whether the charges are for outpatient or inpatient services. In addition, we noted that the facilities make minimal internal efforts (if any) to collect on inpatient self-pay accounts before referring the accounts to USCB. The following are specific areas noted in our review:

- For inpatient accounts, the CBO and OVMC do not bill the patients before referring inpatient accounts to USCB. H/UCLA sends one bill to the patient before referring the accounts to USCB. According to H/UCLA management, collections from the billing are minimal. However, the bill prompts some patients to contact the facility, which allows the facility to pursue identification of a third-party resource.

  Sending at least one bill to a patient before referring the accounts to the outside collection agency appears to encourage patients to contact the facility, which allows the facility to pursue identification of third-party resources. It also allows the facility to collect revenue without having to pay the outside collection agency's fee. All five of the other counties we contacted send at least three bills to the patients before referring the accounts for further collection efforts.

  Subsequent to our fieldwork, DHS Revenue Management established a policy requiring all facilities to send at least one bill to all self-pay patients before referring the accounts to USCB.

- For outpatient accounts, CBO and OVMC send an initial bill 30 days after the end of the month of service. (Emergency room visits are billed within fifteen days of service.) Therefore, if a patient was seen at the beginning of the month, it could take up to 60 days from the date of service for a patient to receive the first bill. H/UCLA sends an initial bill 16 days after the end of the month of service (i.e., up to 46 days from the date of service). According to DHS management, these timing differences are due to variations among the facilities in the methods used to process the bills.

  As a general rule, the sooner the collection efforts are initiated, the greater the chances for collection. The five counties we contacted send an initial bill for service between five and 18 days after the date of service.

- The time for referring inpatient accounts to USCB for collection differs significantly among the facilities. H/UCLA and OVMC generally refer accounts to USCB approximately one month after the date of service, while CBO generally refers accounts approximately five months after the date of service. (As noted earlier, CBO and OVMC do not send any bills to the patients during this time.) CBO management stated that the facilities' PFS unit holds the accounts in an attempt to identify third party coverage or determine eligibility for reduced cost programs. CBO refers these accounts to USCB as soon as they are received from PFS.

  The timing of referrals to USCB should allow facilities time to identify third party coverage and to attempt to collect on the account before it is referred to the collection agency. However, referrals should also be made as soon as possible to maximize the chances for collection. H/UCLA refers inpatient accounts to USCB approximately one month after the initial billing. This allows minimal time for the patient to pay/respond before the account is referred to the collection agency. On the other hand, CBO's referral timeframe of five months may be excessive. The other counties we contacted refer inpatient accounts to an outside collection agency or another county department for further collection activities between 100 to 180 days after the date of service. However, these counties also bill the accounts at least every 30 days. As discussed earlier, CBO and OVMC do not send bills during this period.

DHS Administration should evaluate the various facility billing policies and procedures to determine the most effective practices and develop and implement consistent policies and procedures among DHS facilities. At a minimum, DHS facilities should send one bill to self-pay patients before referring the accounts to the outside collection agency and evaluate if additional billings are warranted. Additionally, facilities should bill potential self-pay patients (i.e., pending Medi-Cal and ATP applicants) while PFS is working the account. Since lengthy delays at PFS are frequently due to patients not providing needed information timely (e.g., paycheck stubs, bank statements, etc.), a bill would inform patients of the outstanding charges and could encourage patients to apply for third-party coverage.

We also found that DHS does not accumulate or monitor self-pay collection data. As part of DHS' evaluation of self-pay collection efforts, DHS Administration should require the facilities to consistently track and report self-pay collection rates. This information can be used by DHS to assess the effectiveness of facility collection efforts.

Recommendations

DHS Administration:

1. **Develop and implement standard self-pay billing policies and procedures including increased in-house billing efforts and improved timeliness of such billings and timely referrals to USCB.**

Recommendations (continued)

DHS Administration:

2. **Require the facilities to consistently track and report self-pay collection data on an ongoing basis to assess the effectiveness of collection efforts.**

Payment Plans

DHS facilities do not establish payment plans for self-pay accounts. DHS facilities refer accounts to USCB even if the patient is making voluntary payments on the account.

DHS management stated that it might not be cost-effective to offer payment plans. However, all five counties we contacted offer payment plans. The other counties indicated that, since many patients are not able to pay the balance in full, payment plans are a beneficial and necessary option in the collection process. Setting up payment plans would allow DHS to collect self-pay revenue without paying a collection fee to USCB (USCB accepts payment plans). If the patient becomes delinquent in the payment plan, DHS could then refer the account to USCB for further collection efforts. DHS should conduct a pilot study to evaluate the cost-effectiveness of establishing such a program.

Recommendation

3. **DHS Revenue Management conduct a pilot study to evaluate the cost-effectiveness of establishing payment plans for self-pay patients.**

Down-Payment Request

For scheduled admissions, DHS policy requires facilities to request patients who do not have third-party coverage and are not eligible for, or are unwilling to apply for the Ability-to-Pay Plan, to make a $700 down payment and sign a statement of responsibility. LAC+USC staff indicated that many patients reconsider applying for Medi-Cal when confronted with the down payment and statement of responsibility.

We found that LAC+USC, KDMC and OVMC are complying with DHS' policy to require a down payment and a signed statement of responsibility from scheduled admission patients. H/UCLA is not complying with the policy. As an incentive to apply for Medi-Cal, DHS should ensure that all facilities implement this practice.

Recommendation

4. **DHS Administration ensure all facilities request scheduled admission self-pay patients to make a down payment and sign a statement of responsibility.**

Late Referrals

As noted earlier, there is a lack of consistency among DHS facilities on when accounts are referred to USCB, the outside collection agency. To assess whether accounts were being referred to USCB timely, we reviewed ten self-pay accounts for both H/UCLA and LAC+USC that were more that six months past the date of service to determine if the accounts should have been referred to USCB. We noted the following:

- For H/UCLA, seven of the ten accounts, averaging 640 days from date of service, should have been referred to USCB. The remaining three accounts were recently identified as self-pay accounts (e.g., the accounts were previously pending Medi-Cal) and were expected to be referred within the facility's timeframe.
- For LAC+USC, four of the ten accounts averaging 410 days from date of service, should have been referred to USCB. CBO had not yet received the PFS files from LAC+USC on two of the four accounts. CBO cannot refer accounts to USCB until the PFS files are received. PFS staff indicated that the PFS files on the other two accounts were sent to CBO. However, CBO has not yet referred these accounts to USCB. The remaining six accounts were recently identified as self-pay accounts (i.e., the accounts were previously pending Medi-Cal) and referred to USCB for collection within the facility's timeframe.

Based on our review of the facilities' accounts receivable reports, 7% of H/UCLA's self-pay accounts and 5% of LAC+USC's self-pay accounts are over one-year old. These accounts have not yet been referred to USCB. The total charges on H/UCLA and LAC+USC accounts more than one year old total $4.2 million and $2.2 million, respectively. CBO staff indicated that, in accordance with their written policy, they monitor their aged self-pay accounts on a monthly basis. H/UCLA staff indicated that they do not have a written policy, but they indicated they monitor their aged self-pay accounts on a bi-monthly basis.

Based on the delays in referring accounts to USCB, H/UCLA and LAC+USC need to improve their monitoring of aged self-pay accounts to ensure accounts are referred to the outside collection agency timely.

Recommendations

5. **DHS Administration ensure that facilities monitor self-pay accounts and refer accounts to the outside collection agency timely.**

Recommendations (continued)

6. **H/UCLA management establish and implement a policy to ensure aged self-pay accounts are monitored on a regular basis.**

Notification of County's Payment Programs

Section 1867(a) of the Social Security Act, also known as the Emergency Medical Treatment and Active Labor Act (EMTALA), restricts hospitals' inquiries into a patient's ability to pay if the patient has an "emergency medical condition". For example, the regulations indicate that a medical screening exam may not be delayed for inquires about payment.
Because of EMTALA, DHS Emergency Room (ER) staff do not conduct any financial screening. At H/UCLA, if an ER patient does not voluntarily identify any third-party coverage, nursing staff gives the patient a packet of information on payment options (e.g., Pre-payment Plan, ATP, etc.) after the patient has been treated. LAC+USC and OVMC do not provide ER patients with any information on payment options at any time during the visit.

To ensure patients are informed of their payment options and that the collection process is initiated timely, DHS should establish a policy requiring all ER facilities to provide patients with information regarding payment options after the medical evaluation has been completed and monitor for compliance.

Recommendation

7. **DHS Revenue Management establish a policy requiring all ER facilities to provide patients with information regarding payment options after the medical evaluation has been completed and monitor for compliance.**

TTC's Collection Efforts

Based on the results of a four-year pilot study completed in 1998, which compared USCB's collection rates to TTC's collection rates, DHS now refers all delinquent self-pay accounts to USCB. Once USCB exhausts its collection efforts, the accounts are transferred to TTC for further collection efforts and/or write-off.

TTC has been making collection efforts on inpatient accounts referred back by USCB since July 2000. From July 2000 through February 2001, TTC's total collections on these accounts were approximately $127,000 (approximately .04% of the total charges referred back by USCB). TTC indicated the collection amount and rate may be inaccurate. This low collection percentage could be due to the age of the accounts and USCB's prior collection efforts.

TTC management is monitoring the results of these collection efforts, but has not yet concluded whether these efforts should be continued. Based on the results to date, it is possible that these collection efforts are not cost-effective.

Recommendation

8. **DHS and TTC management evaluate the cost-effectiveness of TTC's collection efforts and, if the efforts are not cost-effective, stop performing collection efforts.**

Other Counties' Self-Pay Collection Procedures

We contacted four California counties (San Francisco, Alameda, San Bernardino and Santa Clara) and one Arizona county (Maricopa) to discuss self-pay collection practices. We obtained information on the counties' reduced cost self-pay programs and self-pay collection practices to identify possible methods for improving DHS' collection activities. We also obtained information on the counties' self-pay collection rates. The following summarizes our discussions.

Reduced Cost Self-Pay Programs

All five counties offer reduced cost self-pay programs, similar to DHS' ATP Program. The patients must first exhaust other third-party resources (e.g., Medi-Cal), before applying for the reduced cost self-pay programs. Eligibility for these programs is based on the patient's financial ability to pay. We found that the methods used by these counties to verify patient financial information were similar to DHS' (e.g., obtaining bank statements, pay stubs, verification of address such as, drivers' license or utility bill, accessing state computer systems, such as California's Eligibility Income Verification System to verify information obtained from the patient, etc.). DHS indicated that, under the Outpatient Reduced Cost Simplified Application program (ORSA), approved by the Board as part of the 1115 Waiver, the Department has reduced its verification of patient financial information.

In-House Collection Efforts

All five counties' healthcare facilities conduct in-house collection procedures prior to referring the accounts either to an outside collection agency (OCA) or another county department for further collection efforts. The following chart summarizes the inpatient billing timeframes and referral timeframes for these counties and DHS:

Inpatient Billing/Referral Timeframes

County/Facility	Initial Billing (# of days after discharge)	Frequency of Subsequent Bills	Number of Bills Sent Prior to Referral	Referral to OCA/Treasurer (# of days)
Los Angeles County – Department of Health Services				
CBO	No billing	Not Applicable	0	150 days
OMVC	No billing	Not Applicable	0	30 days
H/UCLA	10 days	Not Applicable	1	30 days
Other Counties				
SAN FRANCISCO	5 days	15 days	5	100 days
ALAMEDA	15 days	30 days	3	120 days
SAN BERNARDINO	25 days	30 days	3	100 days
SANTA CLARA	14 days	30 days	6	180 days
MARICOPA	5 days	30 days	6	150 days

As indicated above, the other counties use more in-house efforts to collect on inpatient accounts than DHS. The other counties send between three and six bills to the patients before referring the account for additional collection effort, while DHS, in many cases, does not send any bills.

Another difference between DHS and these counties is that all five other counties accept payment plans for self-pay patients. As noted previously, DHS does not accept payment plans. Several of the counties stated that payment plans are an effective method to assist in collecting self-pay accounts.

Referrals to Outside Collection Agencies

As noted above, all five counties bill self-pay accounts prior to referring the accounts for further collection efforts. Four of the five counties initially refer delinquent accounts to another County department, such as the Treasurer, and the remaining county refers their delinquent accounts directly to an outside collection agency. Three of the four counties that refer accounts to the Treasurer subsequently refer unpaid accounts to an outside collection agency. As noted previously, DHS refers all delinquent self-pay accounts directly to USCB and then to TTC. The use of outside collection agencies seems to be a common practice.

The timing of the referrals varied between the counties. The referral timeframes ranged from 100 to 180 days from discharge for inpatient accounts and from 60 to 150 days from the date of service for outpatient accounts. DHS' referral timeframes were generally within these ranges, except for OVMC and H/UCLA, which refer inpatient accounts in thirty days.

We reviewed the methods used by the other counties' Treasurer/outside collection agency in their collection efforts. These methods include collection letters, phone calls, additional third party resource identification efforts, credit checks, litigation, etc., all of which are methods utilized by USCB and/or TTC.

Collection Rates

Based on discussions with the five counties, the collection rates on self-pay accounts ranged from 4% to 35%. However, because of differences in how these rates are calculated and other variables (e.g., patient demographics), it is difficult to make meaningful comparisons. In addition, as discussed earlier, DHS facilities do not consistently collect or report on self-pay collection rates. As a result, we were only able to determine the collection rate for USCB, DHS' outside collection agency, (approximately 4% on inpatient accounts and 2% on outpatient accounts) and TTC's collection rate (.04%).

The other counties provided the following information on self-pay collection rates:

- Alameda County reported a 4% overall collection rate.
- San Bernardino County reported a 4% collection rate at their Medical Center.
- Maricopa County reported an 8% in-house collection rate and a 5% collection rate by their outside collection agency. Maricopa indicated that its outside collection agency's collection rate has increased recently due to its facilities working more closely with the outside collection agency to provide all available information on the patient. Based on discussions with USCB, DHS facilities generally work closely with USCB to provide all available information.
- San Francisco County reported a 20% overall collection rate. We did not identify any differences in their collection procedures which would explain this high rate.
- Santa Clara County reported a 30% collection rate by their Department of Revenue (similar to the TTC function) and 5% collection rate by their outside collection agency. However, 21% of the collections are from third-party resources on accounts that were previously classified as self-pay.

While there are some differences between DHS' and the other counties' collection practices, it is unclear whether the differences in collection rates are due to the difference in collection practices or other factors. One factor may be DHS' emphasis on qualifying patients for Medi-Cal and their ability to solicit and process Medi-Cal applications from patients in its facilities, unlike other counties where the department of public social services is responsible for these activities. This may result in fewer viable self-pay accounts and more third-party collections by DHS.

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J. TYLER McCAULEY
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November 5, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES DELINQUENT SELF-PAY ACCOUNTS FOLLOW-UP**

At the request of the Audit Committee, we have reviewed the status of the eight recommendations from our July 2001 report on the Department of Health Services' (DHS) Delinquent Self-Pay Accounts. Our report included findings and recommendations related to DHS' self-pay collection policies and procedures, patient payment plans and referrals to the County's outside collection agency.

Status of Recommendations

Overall, DHS is taking action to implement the recommendations from our prior report. Of the eight recommendations, three are fully implemented and five are partially implemented. DHS needs to take action to ensure that all recommendations are fully implemented and remain implemented.

The detailed status of the eight recommendations is discussed below.

Recommendation # 1

DHS Administration develop and implement standard self-pay billing policies and procedures, including increased in-house billing efforts and improved timeliness of such billings and timely referrals to USCB.

Status: IMPLEMENTED

Our initial review disclosed that DHS facilities did not have standardized procedures or timeframes for billing self-pay accounts or for referring the accounts to the outside collection agency.

In response to our recommendation, DHS Revenue Management (RM) developed a matrix of the different procedures and timeframes used by DHS facilities to bill/refer patient accounts. A committee of facility billing staff reviewed the matrix and evaluated the billing/referral process. Based on the committee's recommendations, RM developed standardized timeframes for each step in the process. The facilities' computerized accounts receivable systems were updated to reflect the standard timeframes. Implementation of the standardized billing/referral timeframes began in April 2002.

Recommendation # 2

DHS Administration require the facilities to consistently track and report self-pay collection data on an ongoing basis to assess the effectiveness of collection efforts.

Status: PARTIALLY IMPLEMENTED

Our initial review disclosed that the facilities and DHS did not monitor the facilities' self-pay collections. This information is needed to enable the facilities and DHS to assess the effectiveness of their collection efforts and to take corrective action as appropriate.

RM developed a list of categories (e.g., inpatient, outpatient, insurance deductibles, etc.) for the facilities to use in reporting self-pay collections. These categories provide more detail than was previously available. The facilities submitted their first reports to RM in March 2002. RM prepared a summary of the facilities' reports comparing year-to-date collections for all facilities to FY 2000-01 total collections. However, we noted that the reports only show the actual amounts collected and did not indicate the amounts billed. DHS indicated that they monitor the collections by comparing the amounts collected to the prior year collections. However, without information on the amounts billed, DHS may not be able to fully assess the collection efforts of its facilities.

Recommendation # 3

DHS Revenue Management conduct a pilot study to evaluate the cost effectiveness of establishing payment plans for self-pay patients.

Status: PARTIALLY IMPLEMENTED

RM is conducting a pilot study for patient payment plans at Olive View Medical Center (OVMC). From May 1, 2002 until January 31, 2003, OVMC financial screening staff is supposed to randomly select a total of 40 self-pay patients. These patients will complete a "Plan of Payment Agreement" with a monthly installment payment, based on the patient's financial ability.

OVMC did submit a quarterly report on the pilot to RM on August 31, 2002. However, as of September 2002, OVMC has not been successful in its attempts to get patients to voluntarily enroll in the pilot program. While DHS does have plans for OVMC to submit quarterly reports and for RM to evaluate the cost/benefit of the payment plan program in April 2003, those plans will be impossible to implement if patients do not enroll in the pilot. If OVMC continues to be unable to get patients to participate voluntarily in the pilot, the Department may need to consider whether they can require patients to participate.

Recommendation # 4

DHS Administration ensure all facilities request scheduled admission self-pay patients to make a down payment and sign a statement of responsibility.

Status: IMPLEMENTED

During our initial review, we noted that Harbor-UCLA Medical Center (H/UCLA) was not complying with the DHS policy to request scheduled admission self-pay patients to make a down payment and sign a statement of responsibility for the hospital charges.

After an unsuccessful effort to enforce the policy in September, 2001, H/UCLA Revenue Management did implement this recommendation on September 13, 2002. We noted that scheduled admission self-pay patients are now required to make a down payment and sign a statement of responsibility.

Recommendation # 5

DHS Administration ensure the facilities monitor self-pay accounts and refer accounts to the outside collection agency timely.

Status: PARTIALLY IMPLEMENTED

In October 2001, RM issued a memo to DHS facilities indicating that self-pay accounts need to be monitored monthly, and referred to the outside collection agency in a timely manner. The standardized billing/referral timelines, implemented in April 2002, require inpatient accounts to be referred to the outside collection agency within 59 days.

We reviewed self-pay accounts at Harbor/UCLA and the Centralized Business Office (CBO), which bills for LAC+USC Medical Center (LAC+USC). We noted that Harbor/UCLA has reduced their self-pay accounts over 240 days old from 962 in April 2001 to 611 in April 2002. LAC+USC's self-pay accounts over 270 days old (the facility's previous monitoring timeframe) increased from 220 in April 2001 to 235 in April 2002.

We also noted that CBO and LAC+USC do not adequately monitor self-pay accounts. CBO is supposed to send a list of accounts over 270 days old to LAC+USC Patient Financial Services (PFS) for follow up. However, we tested seven accounts over 270 days old and noted that CBO did not refer five of them to PFS as required. The five accounts ranged from 326 days to 670 days before they were referred to PFS.

Once an account is referred to PFS, PFS is required to review the account and to provide the information needed to bill the account to CBO. We noted that PFS does not always follow up on accounts referred by CBO. We tested five accounts and found that, for two accounts, PFS did not respond to CBO's request for billing information. As a result, one of the accounts exceeded the Medi-Cal billing deadline. For two other accounts, PFS did not respond to CBO until an average of 230 days after CBO inquired about the accounts. For the last account, PFS had already provided the information needed to bill the account to CBO. However, CBO had lost the information.

DHS Revenue Management needs to ensure that the facilities monitor their self-pay accounts and comply with the new timeframes for referring accounts to the outside collection agency.

Recommendation # 6

H/UCLA management establish and implement a policy to ensure aged self-pay accounts are monitored on a regular basis.

Status: IMPLEMENTED

H/UCLA management issued a policy in July 2001 requiring Patient Accounting (PA) to monitor self-pay accounts on a monthly basis, with an emphasis on accounts over 240 days old. As indicated in our follow up to Recommendation # 5, H/UCLA has reduced the number of their self-pay accounts over 240 days old. However, as noted earlier, DHS and H/UCLA need to ensure that H/UCLA complies with the new timeframes for referring self-pay accounts.

Recommendation # 7

DHS Revenue Management establish a policy requiring all ER facilities to provide patients with information regarding payment options after the medical evaluation has been completed and monitor for compliance.

Status: PARTIALLY IMPLEMENTED

DHS RM has indicated that implementation of this recommendation will require revisions to DHS' financial screening policy and a new patient General Consent Form. DHS has submitted the revised policy to County Counsel for review and developed the revised Consent Form. The Consent Form must be approved by the DHS' Forms

Committee. RM indicated that approval by the Forms Committee could take several months.

Recommendation # 8

DHS and Treasurer and Tax Collector (TTC) management evaluate the cost effectiveness of TTC's collection efforts and, if the efforts are not cost effective, stop performing collection efforts.

Status: IMPLEMENTED

In December 2001, DHS RM and TTC agreed that TTC would evaluate the cost effectiveness of their collection efforts. TTC submitted the analysis to RM on February 15, 2002. The analysis compared TTC's collections from July 1, 2001 to December 31, 2001 to the cost of TTC's collection efforts. Based on the analysis, TTC indicated their collection efforts are cost effective and should continue. RM indicated that they would conduct this analysis again for the period January 1, 2002 to December 31, 2002 during March 2003.

Review of Report

We discussed our report with DHS and TTC management. The Department indicated general agreement with our findings and that they are taking action to address the remaining recommendations. DHS will issue a response to this report within 60 days as required by Board policy.

We thank DHS management and TTC staff for their cooperation and assistance during this review. If you have any questions, please call me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:JS

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J. TYLER McCAULEY
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November 21, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *by RSM*
Auditor-Controller

SUBJECT: **PUBLIC LIBRARY FISCAL REVIEW**

We have completed a review of the Public Library's (Library) fiscal operations. Our review focused on evaluating the Library's internal controls and compliance with County fiscal policies and procedures in key fiscal areas including expenditures, revenue/cash, procurement, contracting, payroll/personnel, and fixed assets/portable equipment. We also reviewed the Library's budgetary performance and trust fund activities.

Summary of Findings

Budget

The Library has operated within its budget for the four-year period ending June 30, 2001. The Library has adopted a conservative approach to estimating its budget as it is, for the most part, financially independent and has no unrestricted reserves. The Library is to be commended for effectively estimating and monitoring its budget.

County Internal Control Certification Program

Library management needs to give a higher priority to accurately completing the Internal Control Certification Program (ICCP). Many of the internal control and fiscal policy compliance problems discussed in this report may have been identified if the Library had correctly completed its ICCP. This self-assessment process is an important administrative tool for management and its use needs to be better monitored.

Administrative and Financial Controls

The Library needs to improve its administrative and financial controls in several areas including trust fund oversight, expenditures, cash, procurement, contracting, payroll/personnel, and equipment accountability.

The following are examples of areas where improvements can be made in the Library's administrative and financial control practices.

Expenditure Accounting

Departments should accrue expenditures (accounts payable) when goods or services received in one Fiscal Year (FY) will not be paid until the next Fiscal Year. We noted instances where accounts payable were not accurately computed and where current year expenditures were charged against accounts payable. This practice incorrectly states the total amount of expenditures for the Fiscal Year.

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but will not be received until the next Fiscal Year. Leaving unnecessary commitments on the accounting records understates available fund balance. We noted instances where the Library did not cancel commitments that were no longer needed. For example, in FY 2000-01 we identified $260,150 in commitments that should have been cancelled. After the Library cancelled these commitments, fund balance increased by $260,150.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are accurately computed and not used to pay current year expenditures.

Cash Handling Controls

The Library needs to improve its cash handling procedures to provide adequate internal controls over its cash collections. At one of the three branch libraries we audited, the required separation of duties was not maintained. Library management should review cash collection controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Procurement and Payment Practices

We noted several areas where the Library needs to improve its compliance with County purchasing requirements. The following are examples of problem areas noted:

- Required price quotes are not always obtained.

- Payments are sometimes being made without all necessary documentation such as receiving reports.

- Purchasing duties are not always sufficiently separated among individuals.

The Library needs to ensure that it compares invoice prices to the purchase orders before making payments. We noted $57,000 in overpayments as a result of the Library not matching the invoice to the purchase order. We also noted that discounts totaling $2,194 were lost because payments were not made within the discount period. Public Library management needs to more closely oversee its procurement operations and payment practices.

Contracting

Library management indicated that, due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews identified several areas of non-compliance. Although one contractor has made improvements, the other contractor continued to refuse to provide basic timekeeping and payroll documentation.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct deficient areas timely. The Library needs to continue its recent efforts to effectively monitor contractors' compliance with the Living Wage Ordinance and with the provisions of their County contracts. In addition, the Library needs to ensure that contractors correct deficiencies timely. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide requested documentation.

Details of these and other findings and recommendations are included in the attached report.

Acknowledgment

We thank Public Library management and staff for their cooperation and assistance during our review. Management recognizes the need for improvement and has indicated its commitment to improving the Library's internal controls. The Public Library management's written response (attached) indicates general agreement with our recommendations and management indicated that they will provide a detailed response to the report within 60 days.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:KVO
Attachment

c: David E. Janssen, Chief Administrative Officer
Margaret Donnellan Todd, County Librarian
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

Los Angeles County Public Library

Fiscal Review

November 2002

Prepared by:
Department of Auditor-Controller

Public Library
Fiscal Review

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PUBLIC LIBRARY
Fiscal Review

Comments and Recommendations

Background

The County of Los Angeles Public Library (Library) is a special fund entity under the jurisdiction of the Board of Supervisors. The Library is financed primarily by property taxes, County General Fund contributions, parcel taxes, grants and fees. The Library's general fund Fiscal Year (FY) 2001-02 adopted budgeted appropriations were $78.8 million. The County's General Fund contribution was $15.6 million. The Library employs approximately 604 permanent and 1,050 temporary staff.

We conducted a review of the Library's fiscal operations. The review focused on evaluating the Library's internal controls for compliance with County policies and procedures in key fiscal areas including expenditures, revenue and trust, payroll and personnel, procurement, fixed assets and portable equipment. In addition, we reviewed the Library's budgetary performance, contracting practices, travel expenses, inventory controls, cashiering controls, cellular telephone and gasoline credit card usage.

Board Adopted Budget

Budgetary Performance

We compared the Library's actual financial results to the County budget for Fiscal Years 1997-98 through 2000-01 (see below). In each Fiscal Year, the Library operated within its budget.

Budget to Actual Financial Results
Fiscal Year 1997-98

	Budget	Actual	Over or <Under> Budget
Revenue	$ 43,769,000	$ 45,988,787	$ 2,219,787
Expenditures	59,703,000	57,069,507	(2,633,493)
General Fund Contribution	13,673,000	13,673,000	-
Fund Balance Contribution	$ 2,261,000	$ (2,592,280)	$ (4,853,280)

Budget to Actual Financial Results
Fiscal Year 1998-99

	Budget	Actual	Over or <Under> Budget
Revenue	$ 47,153,000	$ 49,695,671	$ 2,542,671
Expenditures	65,760,000	63,353,555	(2,406,445)
General Fund Contribution	14,054,000	14,054,000	-
Fund Balance Contribution	$ 4,553,000	$ (396,116)	$ (4,949,116)

Budget to Actual Financial Results
Fiscal Year 1999-00

	Budget	Actual	Over or <Under> Budget
Revenue	$ 53,055,000	$ 53,515,421	$ 460,421
Expenditures	73,458,000	68,013,445	(5,444,555)
General Fund Contribution	15,548,000	15,408,000	(140,000)
Fund Balance Contribution	$ 4,855,000	$ (909,976)	$ (5,764,976)

Budget to Actual Financial Results
Fiscal Year 2000-01

	Budget	Actual	Over or <Under> Budget
Revenue	$ 54,726,000	$ 56,411,499	$ 1,685,499
Expenditures	75,206,000	71,343,144	(3,862,856)
General Fund Contribution	14,791,000	14,791,000	-
Fund Balance Contribution	$ 5,689,000	$ 140,645	$ (5,548,355)

The Library does not have control over the revenue it receives from most of its revenue sources. Any variations in the revenue can affect its budgetary performance. The variances that occurred in all four Fiscal Years reviewed resulted from the Library receiving more revenue than budgeted while expenditures were less than budgeted. The Library has adopted a conservative budget approach and for the most part is financially independent and has no unrestricted reserves.

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to annually evaluate their fiscal controls using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When the Library evaluated its fiscal controls using the ICCP, management certified controls were in effect when they were not. Many of the internal control weaknesses discussed in this report may have been identified if the Library had correctly completed its ICCP.

Recommendation

1. **Public Library management give a higher priority to accurately completing the ICCP.**

Designations

A designation is an amount of available assets set aside to be utilized for specific purposes in a future period. We identified a Library designation totaling approximately $862,000 as of December 2001. According to the Library, the $862,000 represents monies received from a voter approved special tax to pay for enhanced Library services for the City of West Hollywood (City). The City requested the Library to establish the designation to fund the future relocation of the County Library in the City to a larger facility. The Library established the designation in FY 1995-96 and it has increased in amount in each subsequent Fiscal Year. However, the Library and the City have not developed a formal plan with timetables for using the funds. Library management should work with the City of West Hollywood to develop a formal spending plan with timeframes for using the designation.

Recommendation

2. **Public Library management work with the City of West Hollywood to develop a spending plan with timeframes for using the designation.**

Donation Trust Funds

We noted three trust funds with large balances on deposit for several years which had a combined balance of $514,447 as of December 2001. A review of the Library's Donations Trust Account records, which are maintained separately from the three trust funds previously mentioned, disclosed that 31 of the 145 sub-accounts had no, or very little expenditures during July 1998 through July 1999. Since July 1999, the Donations Trust Account balance increased $756,439, and totaled $1,395,489 as of December 2001.

Since trust funds are not budgeted, the availability of these funds is not disclosed to the Board of Supervisors or public and can be overlooked by Library management. Library management should either transfer these funds to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods. Either of these options would ensure that the availability of these funds is properly disclosed and that they are not overlooked.

Recommendation

3. **Public Library management either transfer donations to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods.**

Expenditure Accounting

Expenditure Accruals (Accounts Payable)

Departments should accrue expenditures and the related accounts payable when goods received in one Fiscal Year will not be paid for until the next Fiscal Year. The Auditor-Controller provides instructions to departments on how to account for and report these liabilities at the end of each Fiscal Year to help ensure the County has accurate records of its financial position and the results of operations.

We reviewed the accounts payable for Fiscal Years 1998-99 and 1999-00 and noted that, in several instances, accounts payable were overstated and were inappropriately used to pay for goods received in the following Fiscal Year. For example, we identified a payment voucher for approximately $181,503 for goods received in FY 1999-00 that was charged against FY 1998-99 appropriations instead of FY 1999-00 appropriations. The Library management should ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.

Recommendation

4. **Public Library management ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.**

Commitments

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but not received until the next Fiscal Year. Leaving unnecessary commitments on the books understates the year-end fund balance available to help finance the following year's budget. County Fiscal Manual (CFM) Section 4.3.1 requires departments to review outstanding commitment balances and cancel any that are not needed.

At the beginning of FY 2000-01, the Library had 67 commitments totaling approximately $3,582,000. The commitments were established for a variety of services including landscaping services, custodial services, book purchases, etc. Our review of these commitments disclosed the following:

- Commitments totaling $260,150 were no longer needed and should have been cancelled because the final payments were made to the vendor prior to the end of the Fiscal Year. As a result of our audit, the Library cancelled these commitments and increased its available fund balance.

- Commitments totaling $182,642 from FY 1998-99 and $501,101 from FY1999-00 should have been set up as accounts payable. The Library had direct purchase orders (POs) that became commitments after the end of the Fiscal Year, even though the Library received the goods from the vendor prior to the end of the Fiscal Year. The Library indicated that their policy is to not establish an accounts payable for direct POs. However, according to the Auditor-Controller's Fiscal Year end closing instructions to County departments, expenditures should be accrued against any type of vendor encumbrance, including direct POs and contracts, as long as the goods and services are received on or before June 30. Not accruing expenditures at year-end inaccurately reflects the Library's accounts payable.

- We also noted other instances of commitments that should have been established as accounts payable. Commitments totaling $16,438 from FY 1998-99 and $103,146 from FY 1999-00 were established even though the goods were received prior to end of the Fiscal Year.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.

Recommendations

Public Library management ensure that:

5. **Commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled.**

6. **Accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.**

Cash Handling Controls

Separation of Duties for Cash Transactions

According to CFM Section 1.1.3, cash handling duties must be separated to ensure that no one individual controls all key aspects (e.g., receiving, receipting, depositing, disbursing, reconciling and recording) of a cash transaction. This is necessary to reduce the likelihood of losses occurring and going undetected. We conducted fieldwork at three branch libraries and noted that one of the libraries did not maintain adequate separation of duties. Two assistant librarians performed collecting, receipting, and depositing duties. Library management should review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Recommendation

7. Public Library management review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Safe Combinations

According to CFM Section 1.1.4, employees entrusted with a safe combination should safeguard the combination. In addition, safe combinations should be changed when an individual who has knowledge of the safe combination leaves County service, when a security breach occurs, or when any other reason that warrants a safe combination change occurs.

At two of the three branch libraries we visited, a copy of the safe combination was kept in an unlocked desk drawer. Library staff informed us that although they have changed the safe combinations in the past, the three libraries had not changed their safe combinations in over three years. Public Library management should ensure that safe combinations are secured and changed in accordance with CFM requirements.

Recommendation

8. Public Library management ensure that safe combinations are secured and changed in accordance with CFM requirements.

Procurement and Payment Practices

For FY 2001-02, the Library's services and supplies budget totaled approximately $27.9 million. The Library's Procurement Section has overall responsibility for the procurement functions and is responsible for reviewing the requisitions and bid information. The Library's Accounts Payable staff is responsible for reviewing the invoices for accuracy, and comparing invoices to purchase orders and receiving reports before authorizing payment. Once the documents have been matched, the Accounts

Payable staff enters the payment voucher into the Countywide Accounting and Purchasing System (CAPS) to initiate payment to the vendor. Two levels of supervisors/managers are required to review the transactions online, and upon verification, approve the transactions electronically.

Non-Agreement Vendor Purchase Orders

Non-agreement vendor purchase orders should only be used when purchasing supplies that are not provided by agreement vendors. The Internal Services Department's (ISD) purchasing guidelines state that for purchases less than $1,500, two solicitations are encouraged and at least three price quotes should be obtained for each purchase between $1,500 to $5,000.

We reviewed 30 non-agreement vendor purchases and noted the following:

- For five (17%) purchases over $1,500, the Library did not obtain the required number of price quotations.
- Three (10%) purchases were missing required price quote information such as the contact person or the telephone number.

To ensure the Library receives the best possible prices, Library management should ensure Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.

Recommendation

Public Library management ensure:

9. **Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.**

Regularly Purchased Items

The Library does not have an established discounted price for many items they purchase from non-agreement vendors. We reviewed other non-agreement purchases and determined that the Library regularly purchases books, periodicals, compact discs, and other items from non-agreement vendors who either do not offer a discount or the discount is less than what the agreement vendors offer for similar items.

We contacted one of the vendors who sold the Library $4,965 in periodicals without a discount to determine if the Library could have obtained more favorable prices. The owner informed us he would offer an 8% discount from the list price and an additional 2% if payment were made promptly.

To help ensure that the Library is obtaining the best prices, the Library should have ISD establish agreement prices with vendors for items purchased on a regular basis. Also, the Library should request discounts on all items purchased from non-agreement vendors.

Recommendations

Public Library management:

10. **Request ISD to establish agreement prices with vendors for items purchased on a regular basis.**

11. **Request discounts on all items purchased from non-agreement vendors.**

Separation of Duties

CFM Section 4.1.3 requires departments to ensure that an adequate system of checks and balances (separation of duties) exists to minimize the risk of fraud and abuse in the procurement process. At a minimum, the requesting, approving requests, receiving and payment approval functions should be separated.

We reviewed 40 purchases and noted that 10 (25%) purchases had the same individuals requesting and signing for the receipt of goods or services. We also noted that for one purchase the same individual requested the goods and approved the requisition. Public Library management should ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.

Recommendation

12. **Public Library management ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.**

Agreement Vendor Price Verification

We reviewed 20 agreement vendor purchases to determine if the amounts charged by the vendors were correct. While reviewing a purchase from one of the vendors, we noted another purchase from the same vendor where the vendor had mistakenly sent the Library an invoice for $90,294 that should have only been for $45,137. The Library paid the $90,294 without verifying the invoice with the purchase order. The vendor found the mistake and sent the Library a refund approximately three months later. We also noted three other refund checks totaling $8,633 that were a result of the vendor determining that they had overcharged the Library. At our request, the Library had the vendor audit the charges for purchases made in FY 1999-00, which was the first year they had made purchases from the vendor. The vendor determined that it had overcharged the Library an additional $3,359 and gave the Library a credit for that amount.

To ensure the Library pays the correct price for goods and services, the Library should require Procurement staff to compare invoice prices to the purchase orders prior to approving payment. Also, the Library should review its purchase orders on existing subscriptions and determine if additional overbillings exist. If additional overbillings are identified, the Library should request a refund or a credit from the vendors for the amount of the overbillings.

Recommendations

Public Library management:

13. Require Procurement staff to compare invoice prices to the purchase orders prior to approving payment.

14. Review purchase orders on existing subscriptions for possible overbillings and request a refund or a credit from vendors for the amount of the overbillings.

Vendor-Specified Purchases

A vendor-specified purchase order occurs when a selected group of vendors are specified in the purchase order. ISD Purchasing Bulletin #784 requires departments to compare vendor prices and select the most responsive and responsible vendor with the best overall cost consistent with the needs for the purchase of products and services. A minimum of three vendor quotes should be obtained.

We reviewed 20 vendor-specified purchases and noted five computer equipment purchases totaling $97,542 from one vendor and another purchase for $5,664 from a different vendor, where the Library only obtained one price quote. Library management should ensure they obtain price quotes for vendor-specified purchases consistent with ISD standards.

Recommendation

15. Public Library management ensure that they obtain price quotes for vendor-specified purchases consistent with ISD standards.

Cash Discounts and Timeliness of Payments

Board policy requires departments to take all available vendor discounts and to pay vendors within 30 days of receiving the vendors' invoice. We reviewed 96 invoices with available discounts totaling $2,397 and noted that in 84 (88%) instances discounts totaling $2,194 (92%) were lost because payments were not made within the discount period. In most instances, the discount terms were reflected on the vendors' standard invoice, but Receiving and Acquisitions staff did not always send receiving documents to Accounts Payable staff in time to obtain the discounts.

We also reviewed 20 of the 96 invoices to determine if they were paid within 30 days of receiving the vendors' invoices. We noted that 16 (80%) of the 20 invoices tested ranging from $891 to $28,957 were not paid within the required timeframe. The invoices were paid an average of 13 days late. These payments were not paid timely because delays occurred in forwarding the documents from the Receiving and Acquisitions staff at various stages throughout the payment approval process.

In order to maximize discounts taken and ensure vendor invoices are paid timely, Library management should require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.

Recommendation

16. Public Library management require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.

Matching Payment Documents

The Library's Accounts Payable staff pays vendors using the CAPS online Payment Voucher (PV) system. All departments using the CAPS online PV system are required to develop internal control plans that must be approved by the Auditor-Controller. The Library's plan requires that payments be made only after staff review and compare invoices, purchase authorizations, and reports of goods received (i.e., receiving reports).

The Accounts Payable staff does not always comply with the Library's online PV control plan. We reviewed 70 purchases and noted the following:

- Twenty-three (33%) purchases were missing the requisition, quotation sheet, purchase order and/or the receiving report. Of the 23 purchases, 15 were missing the requisition, 16 were missing the quotation sheet, seven were missing the purchase order, and four were missing the receiving report. The Library needs to ensure that these items are included with the payment vouchers and reviewed prior to processing payments.

- Two invoices (3%) had amounts that differed from the amounts shown on the written quotation and purchase order. This resulted in unexplained payments totaling $237 more than the amount shown on the written quotation/purchase order.

Library management should reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.

Recommendation

17. Public Library management reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.

Use of Vendor Codes

CAPS maintains a Vendor Table (VEND) containing over 25,000 records. Information on the VEND includes the vendors' name, vendor code, address, and total current and prior year payments. CFM Section 4.3.6 requires that vendor codes be used to the fullest extent possible when processing vendor payments. The use of vendor codes reduces online data entry time, enables the ability to retrieve historical vendor payment data, edits for duplicate invoice payments, provides automated year-end 1099 reporting to the IRS, automates the Community Business Enterprises activity, and provides summary reporting on Countywide purchasing activity. Generally, departments should only use the miscellaneous vendor code ("MISC 01") for payments to employees or, if the department is fairly certain it will not make any future payments to vendors.

We tested 30 vendor payments and determined that 18 (60%) payments were made using the miscellaneous vendor code when the vendor was on the VEND. Library management should reemphasize to Accounts Payable staff the need to use vendor codes and should monitor staff to ensure compliance.

Recommendation

18. Public Library management reemphasize to Accounts Payable staff the need to use vendor codes and monitor staff to ensure compliance.

Monitoring Suspense

CAPS maintains a suspense file of transactions entered into the system that have not obtained all the required approvals or that have not passed all the required computer edits. We reviewed the Library's suspense file and identified nine (15%) out of 62 transactions had been in suspense for more than 45 days. Not clearing the suspense items can result in untimely payments to vendors and increases the potential for erroneous payments. Therefore, Library management should perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.

Recommendation

19. Public Library management perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.

Revolving Fund Purchases

CFM Section 4.4.1 states that the departmental revolving fund purchasing authority is intended to supplement, not replace, various vendor and other blanket purchase order procedures. Revolving funds may be used where emergencies exist, when prepayment is required, when immediate payment will result in a cost savings, where a purchasing advantage can be achieved or when the payment amount is $25 or less. The CFM also states that departments must establish controls to ensure proper accountability and security over their revolving funds.

The Library does not always adhere to the CFM revolving fund guidelines. We sampled 49 revolving fund transactions and noted:

- Eighteen (37%) transactions were not allowable revolving fund expenditures. These expenditures included purchases of items such as books, decorations, flowers, and bathroom mirrors.
- Two (4%) transactions were missing invoices or receipts.
- Fourteen (29%) transactions had invoices or receipts that were not stamped "PAID" to prevent reuse.
- Four (8%) transactions did not have appropriate supervisory approvals.

Recommendations

Public Library management ensure:

20. Revolving funds are used only where emergencies exist, when prepayment is required, when immediate payment will result in cost savings, where a purchasing advantage can be achieved, or if the payment amount is $25 or less.

21. Invoices or receipts are included with the purchase documentation and marked "PAID."

22. Appropriate supervisory approvals are obtained for all revolving fund expenditures.

Contracting

Contract Monitoring

On June 22, 1999, the Board of Supervisors adopted the Living Wage Ordinance, which established requirements for contractors and subcontractors that conduct business with the County to pay their employees a minimum wage. Also, the County has an ordinance that permits debarment of a contractor that has committed an act or omission that indicates a lack of business integrity or business honesty. County departments are required to monitor contractors to ensure they comply with the Living Wage Ordinance and County contract requirements and to initiate the debarment process when appropriate.

Library management indicated, that due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews noted several areas of non-compliance. One contractor subcontracted portions of its County contract without the Library's permission, did not maintain formal timekeeping documents, and paid custodial staff a fixed amount rather than the Living Wage rate times the hours worked. The second contractor did not provide us access to basic payroll and timekeeping information, as required by their County contract.

During our September 2001 reviews, we noted that one contractor had corrected the conditions noted in our April 2000 report, but still did not maintain formal timekeeping documentation. The second contractor still refused to provide us with basic timekeeping and payroll documentation. In December 2001, we notified the Library of the results of our second reviews.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct areas of non-compliance in a timely manner. The Library reported that the first contractor had corrected the areas of non-compliance noted in our most current report by implementing a formal timekeeping system. The Library further indicated that they would more closely monitor to ensure the contractor uses the new timekeeping system. The contractor that refused to provide basic timekeeping and payroll documentation is on a month-to-month contract until the Library can find a replacement.

The Library needs to continue its recent efforts to effectively monitor contractors for compliance with the Living Wage Ordinance and the provisions of their County contracts. In addition, the Library needs to ensure that contractors take action to correct areas of non-compliance in a timely manner. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.

Recommendations

Public Library management:

23. **Ensure contractors are monitored for compliance with the Living Wage Ordinance and the provisions of their County contracts.**

24. **Ensure contractors take action to correct areas of non-compliance with the Living Wage Ordinance and the provisions of their County contracts in a timely manner.**

25. **Initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.**

Updating Countywide Contractor Database

The County maintains a contractor database that documents the performance of the contractors who have conducted business with the County. The purpose of the database is to provide a resource to use as an evaluation tool for County departments that are considering conducting business with the contractors in the database. Los Angeles County Code Chapter 2.202 requires County departments to update the contract database semi-annually for contractor problems and labor law violations. The Library did not do this for the contracts noted above. Library management should update the Countywide contractor database for contractor problems and labor law violations as required.

Recommendation

26. **Public Library management update the Countywide contractor database for contractor problems and labor law violations as required.**

Contractor Documentation

The Library requires contractors to provide evidence of their general liability insurance, automobile liability insurance, and workers' compensation insurance. This is necessary to ensure the County is adequately protected against potential claims that could arise from contractor activities.

We noted that eight (57%) of the 14 contract files we reviewed were missing either current proof of automobile liability, workers' compensation, or general liability insurance. Library management should ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.

Recommendation

27. **Public Library management ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.**

Payroll and Personnel

Processing Centers

Employees can be grouped into processing centers (e.g., by Library branch) on the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) to control the payroll and information accessible to each authorized user. CFM Section 3.1.5 states that processing centers should be utilized so that payroll and personnel staff do not have access to their own payroll and personnel information on CWTAPPS.

The Library has only one processing center. As a result, all Payroll and Personnel staff have data entry access to every employees' payroll/personnel information, including their own. The Library should utilize more than one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS. This would strengthen security controls over Payroll/Personnel by minimizing the likelihood of inappropriate transactions.

Recommendation

28. **Public Library management utilize more that one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS.**

Personnel Folders

According to CFM Section 3.1.10, Payroll Clerks must not have unsupervised access to employees' personnel folders. The Library's personnel records are kept in unlocked cabinets near the Payroll Clerks' work area. The records are not visible to Personnel employees. The Library should move personnel folders to a location that would allow Personnel employees to supervise access to the folders.

Recommendation

29. **Public Library management move personnel folders to a location that would allow Personnel employees to supervise access to the folders.**

Notice of Separation Form

The Library requires a Notice of Separation (Notice) Form to be completed for all employees who resign or terminate their Library employment. The Regional

Administrator/Section Head is required to submit the Notice to the Library's Human Resources Development (HRD) Office within three working days from the effective date of separation. In addition, upon receipt, HRD staff should process the documents within two business days. The Library established these time frames in order to reduce and/or prevent post-period adjustments and overpayments.

We found that the Regional Administrator/Section Head does not always submit the notice to the HRD Office within the required three days. In addition, the HRD Office does not always process the forms within the required two days. Specifically, in five (25%) of 20 cases tested, HRD did not receive the Notice within three working days from the effective date of separation. These Notices ranged from four to 31 days late. In addition, HRD did not process four (27%) of 15 Notices sampled within two days. Although the delinquent processing of the Notices did require post period adjustments in some instances, we verified that no overpayments occurred.

Public Library management should ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the HRD Office within three working days from the effective date of separation. In addition, Public Library management should ensure that the HRD Office processes the forms within two business days.

Recommendation

30. Public Library management ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the Human Resources Development Office within three working days from the effective date of separation and that the Human Resources Development Office processes the forms within two business days.

Terminated Employees

Several hundred Library employees terminate service each year. In order to ensure that terminated employees do not receive any unauthorized payments, an individual with no payroll responsibilities should trace the names of terminated employees to the Payroll Sequence Register for at least one month after termination. The Library does not perform this procedure.

Recommendation

31. Public Library management ensure someone with no payroll responsibilities traces all terminated employees' names to the Payroll Sequence Register for at least one month after termination.

Payroll Distribution Payoffs

Unannounced payroll distribution payoffs should be conducted at least once a year by personnel with no other payroll or personnel responsibilities. This control helps ensure that all employees receiving warrants or notices of direct deposits are bona fide. Payoffs are particularly important at the Library because it employs over 1,000 temporary employees.

The Library does not conduct periodic unannounced payroll distribution payoffs. The Library conducted payoffs at only 28 of its 103 pay locations between January 1999 and March 2001. Also, the Library announced the payoffs to staff in advance. The Library has not conducted any additional payroll distribution payoffs since March 2001. Public Library management should ensure unannounced payroll distribution payoffs are conducted at least once a year.

Recommendation

32. **Public Library management ensure unannounced payroll distribution payoffs are conducted at least once a year.**

CWTAPPS Bonus Deadline

To ensure accurate payments to employees, departments must comply with Auditor-Controller deadlines for processing personnel and payroll transactions into CWTAPPS. Failure to meet CWTAPPS deadlines could result in employees being paid late.

We sampled 12 bonus transactions and noted that four (33%) were not entered into CWTAPPS by the deadline. On average, the four exceptions were entered into CWTAPPS 12 days late. Library management should ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.

Recommendation

33. **Public Library management ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.**

Workers' Compensation Record Keeping

CFM Section 3.1.3 requires departmental payroll and personnel documents to be retained for at least five years for audit purposes. In addition, the Return to Work Coordinator Procedure Manual states "...the Third Party Administrator (TPA) will advise the employee by letter that they are a Qualified Injured Worker..." The TPA letter serves as notification of acceptance or rejection of the employee's workers' compensation claim, and establishes the compensability dates. Library management was unable to provide us with six (55%) of eleven TPA issued letters we requested. Library management should ensure that all workers' compensation documents are retained for at least five years.

Recommendation

34. Public Library management ensure that all workers' compensation documents are retained for at least five years.

Overtime Controls

County Code Sections 6.09.05 and 6.15.040 require that the department head and CAO pre-approve all overtime worked. At the Library, we noted that not all overtime worked is pre-approved by the CAO. We sampled 30 timecards with overtime hours worked and noted five (17%) contained overtime hours that were not approved by the CAO. According to Library managers, they are not always made aware of changes to their Overtime Authorization Requests. The CAO approved Request for Overtime Authorization memos, which may differ from the requested overtime, are not distributed to the Library's Assistant Directors and Section Heads until the end of the quarter.

To improve its monitoring and control over overtime usage, Library management should ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.

Recommendation

35. Public Library management ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.

CWTAPPS Reports

CWTAPPS generates 21 reports to assist managers in monitoring payroll/personnel operations. Many of the reports identify exceptions and departments are required to use the reports to ensure that employees are paid accurately. Library Payroll staff should review the reports and document the disposition of each entry. The Payroll Supervisor should also review the reports each pay period to ensure that the exceptions are corrected, and sign and date the reports as reviewed. We sampled seven of the exception reports and noted that Library Payroll staff and the Supervisor did not always review the CWTAPPS reports.

To ensure accurate payments to employees, Library management needs to ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.

Recommendation

36. **Public Library management ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.**

Fixed Assets and Portable Equipment

Physical Inventories

CFM Section 6.1.3 requires departments to conduct annual physical inventories of all fixed assets and portable equipment and to reconcile the results to the department's master listing. We noted the Library's practice is to inventory fixed assets every even numbered year and to inventory portable equipment every odd numbered year. Public Library management should ensure that annual physical inventories of all fixed assets and portable equipment is conducted as required to ensure irregularities are identified and investigated in a timely manner.

Recommendation

37. **Public Library management ensure that staff conduct annual physical inventories of all fixed assets and portable equipment as required to ensure irregularities are identified and investigated in a timely manner.**

Portable Equipment Listing

Section 6.4.2 of the CFM requires departments to maintain a department-wide list of all portable equipment items and the name of the individual each item is assigned to. At each location, all items not permanently assigned to individuals should be assigned to one individual who is responsible for securing/controlling the items when they are not being used. These requirements are designed to minimize the risk of portable items being misappropriated without being detected and to help ensure that the accounting records are accurate and complete.

At the Library, the Fiscal Services Section is responsible for maintaining the portable equipment inventory listing. We sampled 20 portable equipment items listed on the Library's Perpetual Inventory listing and noted 11 (55%) were not in the location indicated on the inventory listing.

- Seven (64%) of the portable equipment items were Gateway Computers that we could not locate at the Library's warehouse. The Library's staff told us that the computers were sold at auction on January 13, 2001. We reviewed the inventory list of auction items and only one Gateway CPU and two Gateway monitors were listed. No other Gateway items were noted.

- Four (36%) of the portables were Toshiba computers that were assigned to the Library's warehouse. The Library's staff later informed us that three Toshiba computer serial numbers on the Perpetual Inventory listing were incorrect and furnished us with the correct serial numbers and eventually all four computers were located.

The Library needs to ensure that it maintains accurate portable equipment listings and that missing items are investigated. Also, the Library needs to remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes to facilitate inventory record accuracy.

Recommendations

Public Library management:

38. **Ensure the Library's portable equipment listings are accurate and that missing items are investigated.**

39. **Remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes.**

Safeguarding Portable Equipment

CFM Section 6.4.2 requires departments to maintain all unassigned portable equipment in a secured area. We observed that the Library is maintaining approximately 100 new computers, 100 new monitors, and 233 new printers in the original boxes at the headquarters location. We observed that some of the items were stored on pallets in an unmonitored and unsecured area at the Library headquarters for over five months, while others were stored in an unsecured area for over two years. The Library indicated that it used one-time money to purchase most of the equipment and it acknowledges that delays have occurred in deploying the equipment to its field locations. To reduce the risk of lost or stolen computer equipment, Library management should ensure that all unassigned portable equipment is stored in a secured area. In addition, Library management needs to develop a plan to ensure portable equipment is delivered to field locations as soon as possible.

We also noted that the Library's Fiscal Services Section does not have a record of the new computers and equipment referred to above. CFM Section 6.1.3 requires departments to maintain records for equipment items costing less than $5,000 and which are susceptible to theft. The Library's practice is to not record the serial number or assign a County identification (ID) tag number until the equipment is placed into service. However, to ensure proper accountability over the Library's assets, Library management should record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.

Recommendations

Public Library management:

40. Ensure that all unassigned portable equipment is stored in a secured area.

41. Develop a plan to ensure portable equipment is delivered to field locations as soon as possible.

42. Record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.

Inventories

Inventory Balances

CFM Section 5.2 requires departments to properly account for and report stock issues, transfers, retirements, and to investigate losses timely. The CFM also requires departments to order inventory items only when needed and to perform periodic reviews of inventory records to identify slow moving, obsolete, and/or overstocked items.

We sampled 20 inventory items to review the Library's compliance with the CFM inventory requirements and we noted the following:

- Thirteen (65%) supply room inventory card quantities did not match our physical count. Also, six (30%) supply room inventory cards contained basic errors in adding and subtracting that resulted in inaccurate balances. Library management should instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.
- Two (10%) items should have been considered obsolete and designated for disposal. Library management should periodically review the inventory records to identify obsolete items.

Recommendations

Public Library management:

43. Instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.

44. Periodically review the inventory records to identify obsolete items.

Inventory Reporting

CFM Section 5.3.1 requires departments that have a year-end supply inventory value of $50,000 or greater to take a physical inventory at each location and report the results to the Auditor-Controller's Accounting Division as of June 30. We noted that the Library's inventory balance totaled approximately $360,000 as of June 30, 2001, and that the Library had not reported the inventory value to the Auditor-Controller. In December 2001, Library management reported its inventory balance to the Auditor-Controller after we brought the matter to their attention. Library management should ensure that the value of the supply inventory is reported to the Auditor-Controller as required.

Recommendation

45. Public Library management ensure that the value of the supply inventory is reported to the Auditor-Controller as required.

Cellular Telephones

The Library utilizes approximately 20 cellular telephones, currently assigned to individuals, shared as a pool, or reserved for emergencies only. According to the Library's Administrative Manual and CFM Section 4.5.2, individual cellular telephone users must verify that the charges on cellular telephone bills are correct. Also, personal telephone calls must be identified and cellular telephone users must reimburse the County for the calls within 30 days of bill receipt. The Library's cellular telephone expenditures were $16,869 for FY 2000-01.

At the Library, we noted that cellular telephone users do not always verify the accuracy of cellular telephone bills. Forty-three (73%) of 59 cellular telephone bills we reviewed did not contain the user's signature to document their verification of the cellular telephone charges. Fifteen (35%) of the 43 cellular telephone bills are for telephones that are shared or reserved for emergencies and did not have any call activity except for regular monthly charges. Library management did not believe that it was necessary to have the bills verified by the responsible managers since they did not contain any call activity. Library management should ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.

Recommendation

46. Library management ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.

Gasoline Credit Cards

CFM Section 4.2.5 requires department credit card holders to ensure their credit card is adequately secured by restricting access to it at all times. The Library uses gasoline credit cards to cover refueling expenses of its 48 pool and maintenance vehicles. The vehicles have special lock boxes to secure the credit cards. We attempted to find 10 of the cards to determine if they were adequately secured. Two of the 10 cards could not be located. Based on our results, the Library staff inventoried all 48 assigned gasoline credit cards and determined that seven were missing. The Library contacted the credit card company and requested the immediate cancellation of the cards. In addition, the Library reviewed its credit card charges for the previous 12 months and did not find any charges associated with the missing credit cards.

The Library should periodically inventory its gasoline credit cards and investigate any missing cards.

Recommendation

47. Public Library management periodically inventory its gasoline credit cards and investigate any missing cards.

Travel Expenses

The Library's Claim for Travel Advance form states that expense claims must be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip. We reviewed 20 expense claims and determined that four (20%) were submitted within 31-99 days, five (25%) were submitted within 100-347 days and two (10%) were submitted approximately one year after completion of the claimants' trips.

Library management should remind claimants of Library policy requiring expense claims to be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.

Recommendation

48. Public Library management remind claimants of Library policy requiring expense claims to be submitted through proper channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.

County of Los Angeles Public Library
7400 East Imperial Hwy., P.O. Box 7011, Downey, CA 90241-7011
(562) 940-8461, TELEFAX (562) 803-3032

Library

November 19, 2002

TO: J. Tyler McCauley
Auditor-Controller

FROM: Margaret Donnellan Todd
County Librarian

MDTodd

RESPONSE TO AUDITOR-CONTROLLER FISCAL REVIEW

The Department of Public Library is in general agreement with the 48 recommendations made in your fiscal audit report. We will provide a detailed response to each of the recommendations within 60 days. Currently, we have implemented or are in the process of implementing the corrective actions for many of the recommendations.

Michael Hanks, Head, Fiscal Services will serve as the Department's Audit Coordinator. On a periodic basis, he will follow-up on outstanding recommendations and ask the responsible managers to submit documentation to demonstrate the corrective action taken.

However, as discussed with your staff, we are concerned that some of the recommendations cannot be implemented without additional administrative resources. For example, in our 2002-03 budget, we requested an additional position to strengthen our ability to monitor internal controls and complete the Internal Control Certification Program (ICCP), as required; however, the Chief Administrative Office was unable to approve our budget request due to funding limitations. We will continue to work with the CAO and Board offices to address the resource issues.

We are also concerned that your report does not disclose that non-scientific (i.e., non-random) sampling techniques were used by your staff in this review. It appears that these techniques allow your staff to better focus their efforts on identified problem areas. Our concern is, that without appropriate disclosures, readers of the report might erroneously project error rates from your sample onto the Department as a whole. To avoid this issue, we would ask that you make appropriate disclosures in your final report.

We greatly appreciate your assistance and the assistance of your staff in this review. If you have any questions regarding this response, please call me, or your staff may contact Michael Hanks at 562-940-8447

c: ExCom
Michael Hanks

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Library

MARGARET DONNELLAN TODD
COUNTY LIBRARIAN

January 8, 2004

To: Violet Varona-Lukens
Executive Officer
Board of Supervisors

From: Margaret Donnellan Todd MDTodd (TM)
County Librarian

Subject: **IMPLEMENTATION STATUS AND PLAN FOR NOVEMBER 2002 AUDIT RECOMMENDATIONS**

On December 9, 2003, the Board of Supervisors instructed the Auditor-Controller to report back on the fiscal audit of the Public Library. In response to that request, on December 19, 2003 J. Tyler McCauley, Auditor-Controller, asked that I provide you with a report providing the implementation status of each recommendation contained in the November 2002 fiscal audit, and an implementation plan for each recommendation that has not been fully implemented. (See Attachment I).

The implementation status and implementation plans are included as Attachments II and III. Of the 48 recommendations, 40 have been fully implemented, and 8 have been partially implemented. My staff are working with the Auditor-Controller, Chief Administrative Officer, and others to complete the recommendations that have not been fully implemented.

After analysis, it is clear that even with full implementation of the remaining 8 recommendations, none will result in any significant reduction in cost or increase in revenues.

If you have any questions, please let me know, or your staff may contact Terri Maguire, Chief Deputy, at 562-940-8418.

MDT:MH:mm

Attachments

c: J. Tyler McCauley, Auditor-Controller
David E. Janssen, Chief Administrative Officer

U:\FISCDOCS\MICHAEL\AUDIT\audit plan1.wpd

Attachment I

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 19, 2003

TO: Margaret Donnellan Todd
County Librarian

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **STATUS OF RECOMMENDATIONS**

At its December 16, 2003 meeting, the Board of Supervisors considered Agenda Item 3, requesting the County Quality and Productivity Commission to review the Sheriff's Department's overtime management, Health Services' billing and collection, and Public Library's financial operations. The Board requested that the departments report back in 30 days on the status of recommendations related to those areas. The Public Library's financial controls were addressed in the November 21, 2002 Public Library Fiscal Review report.

To assist you in completing this Board request, we have attached a copy of the report. Please provide the implementation status of the recommendations and deliver it to the Executive Office by Thursday, January 8, 2004. For recommendations that have not been fully implemented, please provide an implementation plan.

If you have any questions, please call me or have your staff contact DeWitt Roberts at (626) 293-1101.

Attachments
JTM:DR:JS

c: David E. Janssen, Chief Administrative Officer (w/o Attachments)
Violet Varona-Lukens, Executive Officer (w/o Attachments)

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
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LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

November 21, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley by RSM
Auditor-Controller

SUBJECT: **PUBLIC LIBRARY FISCAL REVIEW**

We have completed a review of the Public Library's (Library) fiscal operations. Our review focused on evaluating the Library's internal controls and compliance with County fiscal policies and procedures in key fiscal areas including expenditures, revenue/cash, procurement, contracting, payroll/personnel, and fixed assets/portable equipment. We also reviewed the Library's budgetary performance and trust fund activities.

Summary of Findings

Budget

The Library has operated within its budget for the four-year period ending June 30, 2001. The Library has adopted a conservative approach to estimating its budget as it is, for the most part, financially independent and has no unrestricted reserves. The Library is to be commended for effectively estimating and monitoring its budget.

County Internal Control Certification Program

Library management needs to give a higher priority to accurately completing the Internal Control Certification Program (ICCP). Many of the internal control and fiscal policy compliance problems discussed in this report may have been identified if the Library had correctly completed its ICCP. This self-assessment process is an important administrative tool for management and its use needs to be better monitored.

Administrative and Financial Controls

The Library needs to improve its administrative and financial controls in several areas including trust fund oversight, expenditures, cash, procurement, contracting, payroll/personnel, and equipment accountability.

The following are examples of areas where improvements can be made in the Library's administrative and financial control practices.

Expenditure Accounting

Departments should accrue expenditures (accounts payable) when goods or services received in one Fiscal Year (FY) will not be paid until the next Fiscal Year. We noted instances where accounts payable were not accurately computed and where current year expenditures were charged against accounts payable. This practice incorrectly states the total amount of expenditures for the Fiscal Year.

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but will not be received until the next Fiscal Year. Leaving unnecessary commitments on the accounting records understates available fund balance. We noted instances where the Library did not cancel commitments that were no longer needed. For example, in FY 2000-01 we identified $260,150 in commitments that should have been cancelled. After the Library cancelled these commitments, fund balance increased by $260,150.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are accurately computed and not used to pay current year expenditures.

Cash Handling Controls

The Library needs to improve its cash handling procedures to provide adequate internal controls over its cash collections. At one of the three branch libraries we audited, the required separation of duties was not maintained. Library management should review cash collection controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Procurement and Payment Practices

We noted several areas where the Library needs to improve its compliance with County purchasing requirements. The following are examples of problem areas noted:

- Required price quotes are not always obtained.

- Payments are sometimes being made without all necessary documentation such as receiving reports.

- Purchasing duties are not always sufficiently separated among individuals.

The Library needs to ensure that it compares invoice prices to the purchase orders before making payments. We noted $57,000 in overpayments as a result of the Library not matching the invoice to the purchase order. We also noted that discounts totaling $2,194 were lost because payments were not made within the discount period. Public Library management needs to more closely oversee its procurement operations and payment practices.

Contracting

Library management indicated that, due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews identified several areas of non-compliance. Although one contractor has made improvements, the other contractor continued to refuse to provide basic timekeeping and payroll documentation.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct deficient areas timely. The Library needs to continue its recent efforts to effectively monitor contractors' compliance with the Living Wage Ordinance and with the provisions of their County contracts. In addition, the Library needs to ensure that contractors correct deficiencies timely. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide requested documentation.

Details of these and other findings and recommendations are included in the attached report.

Acknowledgment

We thank Public Library management and staff for their cooperation and assistance during our review. Management recognizes the need for improvement and has indicated its commitment to improving the Library's internal controls. The Public Library management's written response (attached) indicates general agreement with our recommendations and management indicated that they will provide a detailed response to the report within 60 days.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:KVO
Attachment

c: David E. Janssen, Chief Administrative Officer
Margaret Donnellan Todd, County Librarian
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

Los Angeles County Public Library

Fiscal Review

November 2002

Prepared by:
Department of Auditor-Controller

Public Library
Fiscal Review

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PUBLIC LIBRARY
Fiscal Review

Comments and Recommendations

Background

The County of Los Angeles Public Library (Library) is a special fund entity under the jurisdiction of the Board of Supervisors. The Library is financed primarily by property taxes, County General Fund contributions, parcel taxes, grants and fees. The Library's general fund Fiscal Year (FY) 2001-02 adopted budgeted appropriations were $78.8 million. The County's General Fund contribution was $15.6 million. The Library employs approximately 604 permanent and 1,050 temporary staff.

We conducted a review of the Library's fiscal operations. The review focused on evaluating the Library's internal controls for compliance with County policies and procedures in key fiscal areas including expenditures, revenue and trust, payroll and personnel, procurement, fixed assets and portable equipment. In addition, we reviewed the Library's budgetary performance, contracting practices, travel expenses, inventory controls, cashiering controls, cellular telephone and gasoline credit card usage.

Board Adopted Budget

Budgetary Performance

We compared the Library's actual financial results to the County budget for Fiscal Years 1997-98 through 2000-01 (see below). In each Fiscal Year, the Library operated within its budget.

Budget to Actual Financial Results
Fiscal Year 1997-98

	Budget	Actual	Over or <Under> Budget
Revenue	$ 43,769,000	$ 45,988,787	$ 2,219,787
Expenditures	59,703,000	57,069,507	(2,633,493)
General Fund Contribution	13,673,000	13,673,000	-
Fund Balance Contribution	$ 2,261,000	$ (2,592,280)	$ (4,853,280)

Budget to Actual Financial Results
Fiscal Year 1998-99

	Budget	Actual	Over or <Under> Budget
Revenue	$ 47,153,000	$ 49,695,671	$ 2,542,671
Expenditures	65,760,000	63,353,555	(2,406,445)
General Fund Contribution	14,054,000	14,054,000	-
Fund Balance Contribution	$ 4,553,000	$ (396,116)	$ (4,949,116)

Budget to Actual Financial Results
Fiscal Year 1999-00

	Budget	Actual	Over or <Under> Budget
Revenue	$ 53,055,000	$ 53,515,421	$ 460,421
Expenditures	73,458,000	68,013,445	(5,444,555)
General Fund Contribution	15,548,000	15,408,000	(140,000)
Fund Balance Contribution	$ 4,855,000	$ (909,976)	$ (5,764,976)

Budget to Actual Financial Results
Fiscal Year 2000-01

	Budget	Actual	Over or <Under> Budget
Revenue	$ 54,726,000	$ 56,411,499	$ 1,685,499
Expenditures	75,206,000	71,343,144	(3,862,856)
General Fund Contribution	14,791,000	14,791,000	-
Fund Balance Contribution	$ 5,689,000	$ 140,645	$ (5,548,355)

The Library does not have control over the revenue it receives from most of its revenue sources. Any variations in the revenue can affect its budgetary performance. The variances that occurred in all four Fiscal Years reviewed resulted from the Library receiving more revenue than budgeted while expenditures were less than budgeted. The Library has adopted a conservative budget approach and for the most part is financially independent and has no unrestricted reserves.

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to annually evaluate their fiscal controls using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When the Library evaluated its fiscal controls using the ICCP, management certified controls were in effect when they were not. Many of the internal control weaknesses discussed in this report may have been identified if the Library had correctly completed its ICCP.

Recommendation

1. **Public Library management give a higher priority to accurately completing the ICCP.**

Designations

A designation is an amount of available assets set aside to be utilized for specific purposes in a future period. We identified a Library designation totaling approximately $862,000 as of December 2001. According to the Library, the $862,000 represents monies received from a voter approved special tax to pay for enhanced Library services for the City of West Hollywood (City). The City requested the Library to establish the designation to fund the future relocation of the County Library in the City to a larger facility. The Library established the designation in FY 1995-96 and it has increased in amount in each subsequent Fiscal Year. However, the Library and the City have not developed a formal plan with timetables for using the funds. Library management should work with the City of West Hollywood to develop a formal spending plan with timeframes for using the designation.

Recommendation

2. **Public Library management work with the City of West Hollywood to develop a spending plan with timeframes for using the designation.**

Donation Trust Funds

We noted three trust funds with large balances on deposit for several years which had a combined balance of $514,447 as of December 2001. A review of the Library's Donations Trust Account records, which are maintained separately from the three trust funds previously mentioned, disclosed that 31 of the 145 sub-accounts had no, or very little expenditures during July 1998 through July 1999. Since July 1999, the Donations Trust Account balance increased $756,439, and totaled $1,395,489 as of December 2001.

Since trust funds are not budgeted, the availability of these funds is not disclosed to the Board of Supervisors or public and can be overlooked by Library management. Library management should either transfer these funds to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods. Either of these options would ensure that the availability of these funds is properly disclosed and that they are not overlooked.

Recommendation

3. **Public Library management either transfer donations to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods.**

Expenditure Accounting

Expenditure Accruals (Accounts Payable)

Departments should accrue expenditures and the related accounts payable when goods received in one Fiscal Year will not be paid for until the next Fiscal Year. The Auditor-Controller provides instructions to departments on how to account for and report these liabilities at the end of each Fiscal Year to help ensure the County has accurate records of its financial position and the results of operations.

We reviewed the accounts payable for Fiscal Years 1998-99 and 1999-00 and noted that, in several instances, accounts payable were overstated and were inappropriately used to pay for goods received in the following Fiscal Year. For example, we identified a payment voucher for approximately $181,503 for goods received in FY 1999-00 that was charged against FY 1998-99 appropriations instead of FY 1999-00 appropriations. The Library management should ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.

Recommendation

4. **Public Library management ensure accounts payable are computed accurately and that current year expenses are paid with current year appropriations and are not charged against accounts payable.**

Commitments

Commitments are funds reserved to pay for goods/services that are ordered in one Fiscal Year, but not received until the next Fiscal Year. Leaving unnecessary commitments on the books understates the year-end fund balance available to help finance the following year's budget. County Fiscal Manual (CFM) Section 4.3.1 requires departments to review outstanding commitment balances and cancel any that are not needed.

At the beginning of FY 2000-01, the Library had 67 commitments totaling approximately $3,582,000. The commitments were established for a variety of services including landscaping services, custodial services, book purchases, etc. Our review of these commitments disclosed the following:

- Commitments totaling $260,150 were no longer needed and should have been cancelled because the final payments were made to the vendor prior to the end of the Fiscal Year. As a result of our audit, the Library cancelled these commitments and increased its available fund balance.

- Commitments totaling $182,642 from FY 1998-99 and $501,101 from FY1999-00 should have been set up as accounts payable. The Library had direct purchase orders (POs) that became commitments after the end of the Fiscal Year, even though the Library received the goods from the vendor prior to the end of the Fiscal Year. The Library indicated that their policy is to not establish an accounts payable for direct POs. However, according to the Auditor-Controller's Fiscal Year end closing instructions to County departments, expenditures should be accrued against any type of vendor encumbrance, including direct POs and contracts, as long as the goods and services are received on or before June 30. Not accruing expenditures at year-end inaccurately reflects the Library's accounts payable.

- We also noted other instances of commitments that should have been established as accounts payable. Commitments totaling $16,438 from FY 1998-99 and $103,146 from FY 1999-00 were established even though the goods were received prior to end of the Fiscal Year.

Library management should ensure that commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled. In addition, management needs to ensure that accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.

Recommendations

Public Library management ensure that:

5. **Commitments are carefully reviewed to determine the amount that should be carried forward into the next Fiscal Year and that amounts no longer needed are cancelled.**

6. **Accounts payable are established for goods and services received on or before June 30, but not paid for until the next Fiscal Year.**

Cash Handling Controls

Separation of Duties for Cash Transactions

According to CFM Section 1.1.3, cash handling duties must be separated to ensure that no one individual controls all key aspects (e.g., receiving, receipting, depositing, disbursing, reconciling and recording) of a cash transaction. This is necessary to reduce the likelihood of losses occurring and going undetected. We conducted fieldwork at three branch libraries and noted that one of the libraries did not maintain adequate separation of duties. Two assistant librarians performed collecting, receipting, and depositing duties. Library management should review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Recommendation

7. **Public Library management review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.**

Safe Combinations

According to CFM Section 1.1.4, employees entrusted with a safe combination should safeguard the combination. In addition, safe combinations should be changed when an individual who has knowledge of the safe combination leaves County service, when a security breach occurs, or when any other reason that warrants a safe combination change occurs.

At two of the three branch libraries we visited, a copy of the safe combination was kept in an unlocked desk drawer. Library staff informed us that although they have changed the safe combinations in the past, the three libraries had not changed their safe combinations in over three years. Public Library management should ensure that safe combinations are secured and changed in accordance with CFM requirements.

Recommendation

8. **Public Library management ensure that safe combinations are secured and changed in accordance with CFM requirements.**

Procurement and Payment Practices

For FY 2001-02, the Library's services and supplies budget totaled approximately $27.9 million. The Library's Procurement Section has overall responsibility for the procurement functions and is responsible for reviewing the requisitions and bid information. The Library's Accounts Payable staff is responsible for reviewing the invoices for accuracy, and comparing invoices to purchase orders and receiving reports before authorizing payment. Once the documents have been matched, the Accounts

Payable staff enters the payment voucher into the Countywide Accounting and Purchasing System (CAPS) to initiate payment to the vendor. Two levels of supervisors/managers are required to review the transactions online, and upon verification, approve the transactions electronically.

Non-Agreement Vendor Purchase Orders

Non-agreement vendor purchase orders should only be used when purchasing supplies that are not provided by agreement vendors. The Internal Services Department's (ISD) purchasing guidelines state that for purchases less than $1,500, two solicitations are encouraged and at least three price quotes should be obtained for each purchase between $1,500 to $5,000.

We reviewed 30 non-agreement vendor purchases and noted the following:

- For five (17%) purchases over $1,500, the Library did not obtain the required number of price quotations.
- Three (10%) purchases were missing required price quote information such as the contact person or the telephone number.

To ensure the Library receives the best possible prices, Library management should ensure Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.

Recommendation

Public Library management ensure:

9. Procurement staff obtains required price quotes and that all relevant quote solicitation information is documented.

Regularly Purchased Items

The Library does not have an established discounted price for many items they purchase from non-agreement vendors. We reviewed other non-agreement purchases and determined that the Library regularly purchases books, periodicals, compact discs, and other items from non-agreement vendors who either do not offer a discount or the discount is less than what the agreement vendors offer for similar items.

We contacted one of the vendors who sold the Library $4,965 in periodicals without a discount to determine if the Library could have obtained more favorable prices. The owner informed us he would offer an 8% discount from the list price and an additional 2% if payment were made promptly.

To help ensure that the Library is obtaining the best prices, the Library should have ISD establish agreement prices with vendors for items purchased on a regular basis. Also, the Library should request discounts on all items purchased from non-agreement vendors.

Recommendations

Public Library management:

10. **Request ISD to establish agreement prices with vendors for items purchased on a regular basis.**

11. **Request discounts on all items purchased from non-agreement vendors.**

Separation of Duties

CFM Section 4.1.3 requires departments to ensure that an adequate system of checks and balances (separation of duties) exists to minimize the risk of fraud and abuse in the procurement process. At a minimum, the requesting, approving requests, receiving and payment approval functions should be separated.

We reviewed 40 purchases and noted that 10 (25%) purchases had the same individuals requesting and signing for the receipt of goods or services. We also noted that for one purchase the same individual requested the goods and approved the requisition. Public Library management should ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.

Recommendation

12. **Public Library management ensure that an adequate separation of duties exists for the requesting, approving requests, and signing for receipt of goods or services.**

Agreement Vendor Price Verification

We reviewed 20 agreement vendor purchases to determine if the amounts charged by the vendors were correct. While reviewing a purchase from one of the vendors, we noted another purchase from the same vendor where the vendor had mistakenly sent the Library an invoice for $90,294 that should have only been for $45,137. The Library paid the $90,294 without verifying the invoice with the purchase order. The vendor found the mistake and sent the Library a refund approximately three months later. We also noted three other refund checks totaling $8,633 that were a result of the vendor determining that they had overcharged the Library. At our request, the Library had the vendor audit the charges for purchases made in FY 1999-00, which was the first year they had made purchases from the vendor. The vendor determined that it had overcharged the Library an additional $3,359 and gave the Library a credit for that amount.

To ensure the Library pays the correct price for goods and services, the Library should require Procurement staff to compare invoice prices to the purchase orders prior to approving payment. Also, the Library should review its purchase orders on existing subscriptions and determine if additional overbillings exist. If additional overbillings are identified, the Library should request a refund or a credit from the vendors for the amount of the overbillings.

Recommendations

Public Library management:

13. **Require Procurement staff to compare invoice prices to the purchase orders prior to approving payment.**

14. **Review purchase orders on existing subscriptions for possible overbillings and request a refund or a credit from vendors for the amount of the overbillings.**

Vendor-Specified Purchases

A vendor-specified purchase order occurs when a selected group of vendors are specified in the purchase order. ISD Purchasing Bulletin #784 requires departments to compare vendor prices and select the most responsive and responsible vendor with the best overall cost consistent with the needs for the purchase of products and services. A minimum of three vendor quotes should be obtained.

We reviewed 20 vendor-specified purchases and noted five computer equipment purchases totaling $97,542 from one vendor and another purchase for $5,664 from a different vendor, where the Library only obtained one price quote. Library management should ensure they obtain price quotes for vendor-specified purchases consistent with ISD standards.

Recommendation

15. **Public Library management ensure that they obtain price quotes for vendor-specified purchases consistent with ISD standards.**

Cash Discounts and Timeliness of Payments

Board policy requires departments to take all available vendor discounts and to pay vendors within 30 days of receiving the vendors' invoice. We reviewed 96 invoices with available discounts totaling $2,397 and noted that in 84 (88%) instances discounts totaling $2,194 (92%) were lost because payments were not made within the discount period. In most instances, the discount terms were reflected on the vendors' standard invoice, but Receiving and Acquisitions staff did not always send receiving documents to Accounts Payable staff in time to obtain the discounts.

We also reviewed 20 of the 96 invoices to determine if they were paid within 30 days of receiving the vendors' invoices. We noted that 16 (80%) of the 20 invoices tested ranging from $891 to $28,957 were not paid within the required timeframe. The invoices were paid an average of 13 days late. These payments were not paid timely because delays occurred in forwarding the documents from the Receiving and Acquisitions staff at various stages throughout the payment approval process.

In order to maximize discounts taken and ensure vendor invoices are paid timely, Library management should require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.

Recommendation

16. **Public Library management require Receiving and Acquisitions staff to send receiving documentation to Accounts Payable in a timely manner.**

Matching Payment Documents

The Library's Accounts Payable staff pays vendors using the CAPS online Payment Voucher (PV) system. All departments using the CAPS online PV system are required to develop internal control plans that must be approved by the Auditor-Controller. The Library's plan requires that payments be made only after staff review and compare invoices, purchase authorizations, and reports of goods received (i.e., receiving reports).

The Accounts Payable staff does not always comply with the Library's online PV control plan. We reviewed 70 purchases and noted the following:

- Twenty-three (33%) purchases were missing the requisition, quotation sheet, purchase order and/or the receiving report. Of the 23 purchases, 15 were missing the requisition, 16 were missing the quotation sheet, seven were missing the purchase order, and four were missing the receiving report. The Library needs to ensure that these items are included with the payment vouchers and reviewed prior to processing payments.

- Two invoices (3%) had amounts that differed from the amounts shown on the written quotation and purchase order. This resulted in unexplained payments totaling $237 more than the amount shown on the written quotation/purchase order.

Library management should reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.

Recommendation

17. **Public Library management reinforce to Accounts Payable staff the importance of matching invoices to receiving reports and purchase orders prior to initiating payments to vendors and monitor to ensure compliance.**

Use of Vendor Codes

CAPS maintains a Vendor Table (VEND) containing over 25,000 records. Information on the VEND includes the vendors' name, vendor code, address, and total current and prior year payments. CFM Section 4.3.6 requires that vendor codes be used to the fullest extent possible when processing vendor payments. The use of vendor codes reduces online data entry time, enables the ability to retrieve historical vendor payment data, edits for duplicate invoice payments, provides automated year-end 1099 reporting to the IRS, automates the Community Business Enterprises activity, and provides summary reporting on Countywide purchasing activity. Generally, departments should only use the miscellaneous vendor code ("MISC 01") for payments to employees or, if the department is fairly certain it will not make any future payments to vendors.

We tested 30 vendor payments and determined that 18 (60%) payments were made using the miscellaneous vendor code when the vendor was on the VEND. Library management should reemphasize to Accounts Payable staff the need to use vendor codes and should monitor staff to ensure compliance.

Recommendation

18. **Public Library management reemphasize to Accounts Payable staff the need to use vendor codes and monitor staff to ensure compliance.**

Monitoring Suspense

CAPS maintains a suspense file of transactions entered into the system that have not obtained all the required approvals or that have not passed all the required computer edits. We reviewed the Library's suspense file and identified nine (15%) out of 62 transactions had been in suspense for more than 45 days. Not clearing the suspense items can result in untimely payments to vendors and increases the potential for erroneous payments. Therefore, Library management should perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.

Recommendation

19. **Public Library management perform reviews of the CAPS suspense file at least semi-monthly and ensure transactions in suspense are resolved timely.**

Revolving Fund Purchases

CFM Section 4.4.1 states that the departmental revolving fund purchasing authority is intended to supplement, not replace, various vendor and other blanket purchase order procedures. Revolving funds may be used where emergencies exist, when prepayment is required, when immediate payment will result in a cost savings, where a purchasing advantage can be achieved or when the payment amount is $25 or less. The CFM also states that departments must establish controls to ensure proper accountability and security over their revolving funds.

The Library does not always adhere to the CFM revolving fund guidelines. We sampled 49 revolving fund transactions and noted:

- Eighteen (37%) transactions were not allowable revolving fund expenditures. These expenditures included purchases of items such as books, decorations, flowers, and bathroom mirrors.
- Two (4%) transactions were missing invoices or receipts.
- Fourteen (29%) transactions had invoices or receipts that were not stamped "PAID" to prevent reuse.
- Four (8%) transactions did not have appropriate supervisory approvals.

Recommendations

Public Library management ensure:

20. **Revolving funds are used only where emergencies exist, when prepayment is required, when immediate payment will result in cost savings, where a purchasing advantage can be achieved, or if the payment amount is $25 or less.**

21. **Invoices or receipts are included with the purchase documentation and marked "PAID."**

22. **Appropriate supervisory approvals are obtained for all revolving fund expenditures.**

Contracting

Contract Monitoring

On June 22, 1999, the Board of Supervisors adopted the Living Wage Ordinance, which established requirements for contractors and subcontractors that conduct business with the County to pay their employees a minimum wage. Also, the County has an ordinance that permits debarment of a contractor that has committed an act or omission that indicates a lack of business integrity or business honesty. County departments are required to monitor contractors to ensure they comply with the Living Wage Ordinance and County contract requirements and to initiate the debarment process when appropriate.

Library management indicated, that due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews noted several areas of non-compliance. One contractor subcontracted portions of its County contract without the Library's permission, did not maintain formal timekeeping documents, and paid custodial staff a fixed amount rather than the Living Wage rate times the hours worked. The second contractor did not provide us access to basic payroll and timekeeping information, as required by their County contract.

During our September 2001 reviews, we noted that one contractor had corrected the conditions noted in our April 2000 report, but still did not maintain formal timekeeping documentation. The second contractor still refused to provide us with basic timekeeping and payroll documentation. In December 2001, we notified the Library of the results of our second reviews.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct areas of non-compliance in a timely manner. The Library reported that the first contractor had corrected the areas of non-compliance noted in our most current report by implementing a formal timekeeping system. The Library further indicated that they would more closely monitor to ensure the contractor uses the new timekeeping system. The contractor that refused to provide basic timekeeping and payroll documentation is on a month-to-month contract until the Library can find a replacement.

The Library needs to continue its recent efforts to effectively monitor contractors for compliance with the Living Wage Ordinance and the provisions of their County contracts. In addition, the Library needs to ensure that contractors take action to correct areas of non-compliance in a timely manner. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.

Recommendations

Public Library management:

23. **Ensure contractors are monitored for compliance with the Living Wage Ordinance and the provisions of their County contracts.**

24. **Ensure contractors take action to correct areas of non-compliance with the Living Wage Ordinance and the provisions of their County contracts in a timely manner.**

25. **Initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.**

Updating Countywide Contractor Database

The County maintains a contractor database that documents the performance of the contractors who have conducted business with the County. The purpose of the database is to provide a resource to use as an evaluation tool for County departments that are considering conducting business with the contractors in the database. Los Angeles County Code Chapter 2.202 requires County departments to update the contract database semi-annually for contractor problems and labor law violations. The Library did not do this for the contracts noted above. Library management should update the Countywide contractor database for contractor problems and labor law violations as required.

Recommendation

26. **Public Library management update the Countywide contractor database for contractor problems and labor law violations as required.**

Contractor Documentation

The Library requires contractors to provide evidence of their general liability insurance, automobile liability insurance, and workers' compensation insurance. This is necessary to ensure the County is adequately protected against potential claims that could arise from contractor activities.

We noted that eight (57%) of the 14 contract files we reviewed were missing either current proof of automobile liability, workers' compensation, or general liability insurance. Library management should ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.

Recommendation

27. Public Library management ensure that contractors have all required insurance as a prerequisite to conducting business with the Library and that appropriate documentation is maintained.

Payroll and Personnel

Processing Centers

Employees can be grouped into processing centers (e.g., by Library branch) on the Countywide Timekeeping and Payroll/Personnel System (CWTAPPS) to control the payroll and information accessible to each authorized user. CFM Section 3.1.5 states that processing centers should be utilized so that payroll and personnel staff do not have access to their own payroll and personnel information on CWTAPPS.

The Library has only one processing center. As a result, all Payroll and Personnel staff have data entry access to every employees' payroll/personnel information, including their own. The Library should utilize more than one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS. This would strengthen security controls over Payroll/Personnel by minimizing the likelihood of inappropriate transactions.

Recommendation

28. Public Library management utilize more that one processing center to prevent Payroll and Personnel staff's access to their own payroll and personnel information on CWTAPPS.

Personnel Folders

According to CFM Section 3.1.10, Payroll Clerks must not have unsupervised access to employees' personnel folders. The Library's personnel records are kept in unlocked cabinets near the Payroll Clerks' work area. The records are not visible to Personnel employees. The Library should move personnel folders to a location that would allow Personnel employees to supervise access to the folders.

Recommendation

29. Public Library management move personnel folders to a location that would allow Personnel employees to supervise access to the folders.

Notice of Separation Form

The Library requires a Notice of Separation (Notice) Form to be completed for all employees who resign or terminate their Library employment. The Regional

Administrator/Section Head is required to submit the Notice to the Library's Human Resources Development (HRD) Office within three working days from the effective date of separation. In addition, upon receipt, HRD staff should process the documents within two business days. The Library established these time frames in order to reduce and/or prevent post-period adjustments and overpayments.

We found that the Regional Administrator/Section Head does not always submit the notice to the HRD Office within the required three days. In addition, the HRD Office does not always process the forms within the required two days. Specifically, in five (25%) of 20 cases tested, HRD did not receive the Notice within three working days from the effective date of separation. These Notices ranged from four to 31 days late. In addition, HRD did not process four (27%) of 15 Notices sampled within two days. Although the delinquent processing of the Notices did require post period adjustments in some instances, we verified that no overpayments occurred.

Public Library management should ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the HRD Office within three working days from the effective date of separation. In addition, Public Library management should ensure that the HRD Office processes the forms within two business days.

Recommendation

30. **Public Library management ensure that the Regional Administrator/Section Head submits the Notice of Separation Forms to the Human Resources Development Office within three working days from the effective date of separation and that the Human Resources Development Office processes the forms within two business days.**

Terminated Employees

Several hundred Library employees terminate service each year. In order to ensure that terminated employees do not receive any unauthorized payments, an individual with no payroll responsibilities should trace the names of terminated employees to the Payroll Sequence Register for at least one month after termination. The Library does not perform this procedure.

Recommendation

31. **Public Library management ensure someone with no payroll responsibilities traces all terminated employees' names to the Payroll Sequence Register for at least one month after termination.**

Payroll Distribution Payoffs

Unannounced payroll distribution payoffs should be conducted at least once a year by personnel with no other payroll or personnel responsibilities. This control helps ensure that all employees receiving warrants or notices of direct deposits are bona fide. Payoffs are particularly important at the Library because it employs over 1,000 temporary employees.

The Library does not conduct periodic unannounced payroll distribution payoffs. The Library conducted payoffs at only 28 of its 103 pay locations between January 1999 and March 2001. Also, the Library announced the payoffs to staff in advance. The Library has not conducted any additional payroll distribution payoffs since March 2001. Public Library management should ensure unannounced payroll distribution payoffs are conducted at least once a year.

Recommendation

32. **Public Library management ensure unannounced payroll distribution payoffs are conducted at least once a year.**

CWTAPPS Bonus Deadline

To ensure accurate payments to employees, departments must comply with Auditor-Controller deadlines for processing personnel and payroll transactions into CWTAPPS. Failure to meet CWTAPPS deadlines could result in employees being paid late.

We sampled 12 bonus transactions and noted that four (33%) were not entered into CWTAPPS by the deadline. On average, the four exceptions were entered into CWTAPPS 12 days late. Library management should ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.

Recommendation

33. **Public Library management ensure that employee bonus transactions are entered into CWTAPPS by the Auditor-Controller deadlines.**

Workers' Compensation Record Keeping

CFM Section 3.1.3 requires departmental payroll and personnel documents to be retained for at least five years for audit purposes. In addition, the Return to Work Coordinator Procedure Manual states "...the Third Party Administrator (TPA) will advise the employee by letter that they are a Qualified Injured Worker..." The TPA letter serves as notification of acceptance or rejection of the employee's workers' compensation claim, and establishes the compensability dates. Library management was unable to provide us with six (55%) of eleven TPA issued letters we requested. Library management should ensure that all workers' compensation documents are retained for at least five years.

Recommendation

34. Public Library management ensure that all workers' compensation documents are retained for at least five years.

Overtime Controls

County Code Sections 6.09.05 and 6.15.040 require that the department head and CAO pre-approve all overtime worked. At the Library, we noted that not all overtime worked is pre-approved by the CAO. We sampled 30 timecards with overtime hours worked and noted five (17%) contained overtime hours that were not approved by the CAO. According to Library managers, they are not always made aware of changes to their Overtime Authorization Requests. The CAO approved Request for Overtime Authorization memos, which may differ from the requested overtime, are not distributed to the Library's Assistant Directors and Section Heads until the end of the quarter.

To improve its monitoring and control over overtime usage, Library management should ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.

Recommendation

35. Public Library management ensure that the CAO approved Request for Overtime Authorization memos are distributed to the Assistant Directors and Section Heads at the beginning of each quarter.

CWTAPPS Reports

CWTAPPS generates 21 reports to assist managers in monitoring payroll/personnel operations. Many of the reports identify exceptions and departments are required to use the reports to ensure that employees are paid accurately. Library Payroll staff should review the reports and document the disposition of each entry. The Payroll Supervisor should also review the reports each pay period to ensure that the exceptions are corrected, and sign and date the reports as reviewed. We sampled seven of the exception reports and noted that Library Payroll staff and the Supervisor did not always review the CWTAPPS reports.

To ensure accurate payments to employees, Library management needs to ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.

Recommendation

36. Public Library management ensure Payroll staff review and document their review of CWTAPPS reports and the Payroll Supervisors review the reports each pay period to ensure exceptions are corrected, and sign and date the reports as reviewed.

Fixed Assets and Portable Equipment

Physical Inventories

CFM Section 6.1.3 requires departments to conduct annual physical inventories of all fixed assets and portable equipment and to reconcile the results to the department's master listing. We noted the Library's practice is to inventory fixed assets every even numbered year and to inventory portable equipment every odd numbered year. Public Library management should ensure that annual physical inventories of all fixed assets and portable equipment is conducted as required to ensure irregularities are identified and investigated in a timely manner.

Recommendation

37. Public Library management ensure that staff conduct annual physical inventories of all fixed assets and portable equipment as required to ensure irregularities are identified and investigated in a timely manner.

Portable Equipment Listing

Section 6.4.2 of the CFM requires departments to maintain a department-wide list of all portable equipment items and the name of the individual each item is assigned to. At each location, all items not permanently assigned to individuals should be assigned to one individual who is responsible for securing/controlling the items when they are not being used. These requirements are designed to minimize the risk of portable items being misappropriated without being detected and to help ensure that the accounting records are accurate and complete.

At the Library, the Fiscal Services Section is responsible for maintaining the portable equipment inventory listing. We sampled 20 portable equipment items listed on the Library's Perpetual Inventory listing and noted 11 (55%) were not in the location indicated on the inventory listing.

- Seven (64%) of the portable equipment items were Gateway Computers that we could not locate at the Library's warehouse. The Library's staff told us that the computers were sold at auction on January 13, 2001. We reviewed the inventory list of auction items and only one Gateway CPU and two Gateway monitors were listed. No other Gateway items were noted.

- Four (36%) of the portables were Toshiba computers that were assigned to the Library's warehouse. The Library's staff later informed us that three Toshiba computer serial numbers on the Perpetual Inventory listing were incorrect and furnished us with the correct serial numbers and eventually all four computers were located.

The Library needs to ensure that it maintains accurate portable equipment listings and that missing items are investigated. Also, the Library needs to remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes to facilitate inventory record accuracy.

Recommendations

Public Library management:

38. Ensure the Library's portable equipment listings are accurate and that missing items are investigated.

39. Remind Library locations of the importance of notifying the Fiscal Services Section of inventory changes.

Safeguarding Portable Equipment

CFM Section 6.4.2 requires departments to maintain all unassigned portable equipment in a secured area. We observed that the Library is maintaining approximately 100 new computers, 100 new monitors, and 233 new printers in the original boxes at the headquarters location. We observed that some of the items were stored on pallets in an unmonitored and unsecured area at the Library headquarters for over five months, while others were stored in an unsecured area for over two years. The Library indicated that it used one-time money to purchase most of the equipment and it acknowledges that delays have occurred in deploying the equipment to its field locations. To reduce the risk of lost or stolen computer equipment, Library management should ensure that all unassigned portable equipment is stored in a secured area. In addition, Library management needs to develop a plan to ensure portable equipment is delivered to field locations as soon as possible.

We also noted that the Library's Fiscal Services Section does not have a record of the new computers and equipment referred to above. CFM Section 6.1.3 requires departments to maintain records for equipment items costing less than $5,000 and which are susceptible to theft. The Library's practice is to not record the serial number or assign a County identification (ID) tag number until the equipment is placed into service. However, to ensure proper accountability over the Library's assets, Library management should record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.

Recommendations

Public Library management:

40. Ensure that all unassigned portable equipment is stored in a secured area.

41. Develop a plan to ensure portable equipment is delivered to field locations as soon as possible.

42. Record the serial numbers of new equipment upon receipt, and report this information to the Fiscal Services Section.

Inventories

Inventory Balances

CFM Section 5.2 requires departments to properly account for and report stock issues, transfers, retirements, and to investigate losses timely. The CFM also requires departments to order inventory items only when needed and to perform periodic reviews of inventory records to identify slow moving, obsolete, and/or overstocked items.

We sampled 20 inventory items to review the Library's compliance with the CFM inventory requirements and we noted the following:

- Thirteen (65%) supply room inventory card quantities did not match our physical count. Also, six (30%) supply room inventory cards contained basic errors in adding and subtracting that resulted in inaccurate balances. Library management should instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.
- Two (10%) items should have been considered obsolete and designated for disposal. Library management should periodically review the inventory records to identify obsolete items.

Recommendations

Public Library management:

43. Instruct staff to properly account for changes in inventory, conduct periodic test counts to verify inventory accuracy, and investigate significant inventory variances.

44. Periodically review the inventory records to identify obsolete items.

Inventory Reporting

CFM Section 5.3.1 requires departments that have a year-end supply inventory value of $50,000 or greater to take a physical inventory at each location and report the results to the Auditor-Controller's Accounting Division as of June 30. We noted that the Library's inventory balance totaled approximately $360,000 as of June 30, 2001, and that the Library had not reported the inventory value to the Auditor-Controller. In December 2001, Library management reported its inventory balance to the Auditor-Controller after we brought the matter to their attention. Library management should ensure that the value of the supply inventory is reported to the Auditor-Controller as required.

Recommendation

45. Public Library management ensure that the value of the supply inventory is reported to the Auditor-Controller as required.

Cellular Telephones

The Library utilizes approximately 20 cellular telephones, currently assigned to individuals, shared as a pool, or reserved for emergencies only. According to the Library's Administrative Manual and CFM Section 4.5.2, individual cellular telephone users must verify that the charges on cellular telephone bills are correct. Also, personal telephone calls must be identified and cellular telephone users must reimburse the County for the calls within 30 days of bill receipt. The Library's cellular telephone expenditures were $16,869 for FY 2000-01.

At the Library, we noted that cellular telephone users do not always verify the accuracy of cellular telephone bills. Forty-three (73%) of 59 cellular telephone bills we reviewed did not contain the user's signature to document their verification of the cellular telephone charges. Fifteen (35%) of the 43 cellular telephone bills are for telephones that are shared or reserved for emergencies and did not have any call activity except for regular monthly charges. Library management did not believe that it was necessary to have the bills verified by the responsible managers since they did not contain any call activity. Library management should ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.

Recommendation

46. Library management ensure that all cellular telephone users verify charges to ensure they are correct and document their review by signing the bill.

Gasoline Credit Cards

CFM Section 4.2.5 requires department credit card holders to ensure their credit card is adequately secured by restricting access to it at all times. The Library uses gasoline credit cards to cover refueling expenses of its 48 pool and maintenance vehicles. The vehicles have special lock boxes to secure the credit cards. We attempted to find 10 of the cards to determine if they were adequately secured. Two of the 10 cards could not be located. Based on our results, the Library staff inventoried all 48 assigned gasoline credit cards and determined that seven were missing. The Library contacted the credit card company and requested the immediate cancellation of the cards. In addition, the Library reviewed its credit card charges for the previous 12 months and did not find any charges associated with the missing credit cards.

The Library should periodically inventory its gasoline credit cards and investigate any missing cards.

Recommendation

47. Public Library management periodically inventory its gasoline credit cards and investigate any missing cards.

Travel Expenses

The Library's Claim for Travel Advance form states that expense claims must be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip. We reviewed 20 expense claims and determined that four (20%) were submitted within 31-99 days, five (25%) were submitted within 100-347 days and two (10%) were submitted approximately one year after completion of the claimants' trips.

Library management should remind claimants of Library policy requiring expense claims to be submitted through proper approval channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.

Recommendation

48. Public Library management remind claimants of Library policy requiring expense claims to be submitted through proper channels and received by the Fiscal Services Section within thirty days of the completion of each approved trip.

County of Los Angeles Public Library
7400 East Imperial Hwy., P.O. Box 7011, Downey, CA 90241-7011
(562) 940-8461, TELEFAX (562) 803-3032

Library

November 19, 2002

TO: J. Tyler McCauley
Auditor-Controller

FROM: Margaret Donnellan Todd
County Librarian

RESPONSE TO AUDITOR-CONTROLLER FISCAL REVIEW

The Department of Public Library is in general agreement with the 48 recommendations made in your fiscal audit report. We will provide a detailed response to each of the recommendations within 60 days. Currently, we have implemented or are in the process of implementing the corrective actions for many of the recommendations.

Michael Hanks, Head, Fiscal Services will serve as the Department's Audit Coordinator. On a periodic basis, he will follow-up on outstanding recommendations and ask the responsible managers to submit documentation to demonstrate the corrective action taken.

However, as discussed with your staff, we are concerned that some of the recommendations cannot be implemented without additional administrative resources. For example, in our 2002-03 budget, we requested an additional position to strengthen our ability to monitor internal controls and complete the Internal Control Certification Program (ICCP), as required; however, the Chief Administrative Office was unable to approve our budget request due to funding limitations. We will continue to work with the CAO and Board offices to address the resource issues.

We are also concerned that your report does not disclose that non-scientific (i.e., non-random) sampling techniques were used by your staff in this review. It appears that these techniques allow your staff to better focus their efforts on identified problem areas. Our concern is, that without appropriate disclosures, readers of the report might erroneously project error rates from your sample onto the Department as a whole. To avoid this issue, we would ask that you make appropriate disclosures in your final report.

We greatly appreciate your assistance and the assistance of your staff in this review. If you have any questions regarding this response, please call me, or your staff may contact Michael Hanks at 562-940-8447

c: ExCom
Michael Hanks

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Attachment II

AUDIT RECOMMENDATION TRACKING WORKSHEET
STATUS AS OF 1/7/04

DEPARTMENT: Public Library

REPORT TITLE/DATE: Public Library Fiscal Review, 11/02

AUDITED BY: Auditor-Controller

AUDIT DIVISION CORRESPONDENCE FILE NO: 10667

Recommendation Number	Status as of: (Legend Below) 10/09/03	Target or Actual Implementation Date

Completed by (print name): Margaret Donnellan Todd

Title: County Librarian

I = Department agrees with the recommendation and has fully implemented it or has taken other steps to implement the intent of the recommendation.

PI = Department agrees with and has partially implemented the recommendation (show target date for full implementation).

NI = Department agrees but has not taken any action as yet to implement the recommendation (show target for full implementation).

NA = Department believes the recommendation is no longer applicable.

D = Department disagrees with the recommendation and does not plan to implement it.

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AUDIT RECOMMENDATION TRACKING WORKSHEET
STATUS AS OF 1/7/04

DEPARTMENT: Public Library

REPORT TITLE/DATE: Public Library Fiscal Review, 11/02

AUDITED BY: Auditor-Controller

AUDIT DIVISION CORRESPONDENCE FILE NO: 10667

Recommendation Number	Status as of: (Legend Below) 10/09/03	Target or Actual Implementation Date
1	PI	6/30/04
2	PI	
3	PI	4/30/04
4	I	
5	I	
6	I	
7	PI	6/30/04
8	PI	3/8/04
9	I	
10	I	
11	I	
12	I	
13	I	
14	I	
15	I	
16	I	
17	I	
18	I	

Attachment II

AUDIT RECOMMENDATION TRACKING WORKSHEET
STATUS AS OF 1/7/04

DEPARTMENT: Public Library

REPORT TITLE/DATE: Public Library Fiscal Review, 11/02

AUDITED BY: Auditor-Controller

AUDIT DIVISION CORRESPONDENCE FILE NO: 10667

Recommendation Number	Status as of: (Legend Below) 10/09/03	Target or Actual Implementation Date
19	I	
20	I	
21	I	
22	I	
23	I	
24	I	
25	PI	5/6/04
26	I	
27	I	
28	I	
29	I	
30	I	
31	PI	4/6/04
32	PI	4/6/04
33	I	
34	I	
35	I	
36	I	

AUDIT RECOMMENDATION TRACKING WORKSHEET
STATUS AS OF 1/7/04

DEPARTMENT: Public Library

REPORT TITLE/DATE: Public Library Fiscal Review, 11/02

AUDITED BY: Auditor-Controller

AUDIT DIVISION CORRESPONDENCE FILE NO: 10667

Recommendation Number	Status as of: (Legend Below) 10/09/03	Target or Actual Implementation Date
37	I	
38	I	
39	I	
40	I	
41	I	
42	I	
43	I	
44	I	
45	I	
46	I	
47	I	
48	I	

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Attachment III

COUNTY OF LOS ANGELES PUBLIC LIBRARY
AUDITOR-CONTROLLER'S NOVEMBER 2002 FISCAL REVIEW
IMPLEMENTATION PLAN

RECOMMENDATION # 1

Findings:

County Code Section 2.10.015 requires County departments to annually evaluate their fiscal controls using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When the Library evaluated its fiscal controls using the ICCP, management certified controls were in effect when they were not. Many of the internal control weaknesses discussed in this report may have been identified if the Library had correctly completed its ICCP.

Recommendations:

Public Library management give a higher priority to accurately completing the ICCP.

Department's Response on April 15, 2003:

The Department agrees with this recommendation in principal and is aware of the importance of completing the ICCP accurately, but lacks the staffing resources to address this important function. The Public Library requested 1.0 budgeted position in its 2002-03 budget request to address its responsibilities related to monitoring internal controls. However, the Chief Administrative Office (CAO) was unable to approve this request. The Public Library is again requesting this position in its 2003-04 budget request, and is committed to working with the CAO and Auditor-Controller to improving this function.

Current Status of Recommendations/Implementation Plan:

The Department is giving the highest priority possible within the existing staffing. In addition, a new position, Accounting Officer I, was approved in the 2003-04 budget to better address this important function. This position will lead the Internal Controls & Audit Unit and will be directly responsible for the preparation of the ICCP. The Department will fill this position before the end of the fiscal year.

RECOMMENDATION # 2

Findings:

A designation is an amount of available assets set aside to be utilized for specific purposes in a future period. We identified a Library designation totaling approximately $862,000 as of December 2001. According to the Library, the $862,000 represents monies received from a voter approved special tax to pay for enhanced Library services for the City of West Hollywood (City). The City requested the Library to establish the designation to fund the future relocation of the County Library in the City to a larger facility. The Library established the designation in FY 1995-96 and it has increased in amount in each subsequent Fiscal Year. However, the Library and the City have not developed a formal plan with timetables for using the funds. Library management should work with the City of West Hollywood to develop a formal spending plan with timeframes for using the designation.

Recommendations:

Public Library management works with the City of West Hollywood to develop a spending plan with timeframes for using the designation.

Department's Response on April 15, 2003:

The City of West Hollywood with approval of the Board of Supervisors has submitted a grant to the State for replacement of the West Hollywood Library (Public Library Construction and Renovation Bond Act of 2000 Funds). These funds are designated toward the City's 35% match and a spending plan is in place.

Current Status of Recommendations/Implementation Plan:

As part of the Bond application negotiation process, the City and County agreed in principle that all special tax funds set aside for West Hollywood will be applied toward the construction of the new facility. The formal agreement finalizing this understanding will be completed when Cycle Three Bond Act funds are awarded. The anticipated date of that award is October 2004.

RECOMMENDATION # 3

Findings:

We noted three trust funds with large balances on deposit for several years which had a combined balance of $514,447 as of December 2001. A review of the Library's Donations Trust Account records, which are maintained separately from the three trust funds previously mentioned, disclosed that 31 of the 145 sub-accounts had no, or very little expenditures during July 1998 through July 1999. Since July 1999, the Donations Trust Account balance increased $756,439, and totaled $1,395,489 as of December 2001.

Since trust funds are not budgeted, the availability of these funds is not disclosed to the Board of Supervisors or public and can be overlooked by Library management. Library management should either transfer these funds to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods. Either of these options would ensure that the availability of these funds is properly disclosed and that they are not overlooked.

Recommendations:

Public Library management either transfer donations to its general fund and expend them for their intended purpose or establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods.

Department's Response on April 15, 2003:

Trust Fund accounts have not been overlooked by Library Management. Funds have been expended as per the requirement of the donation or as Library management has determined is in the best interest of the community. However, the Department agrees that improvements should be made and is working with the CAO to establish a budgeted special revenue fund to account for the expenditure of these funds in current and future periods.

Current Status of Recommendations/Implementation Plan:

The Department will request a budget unit from the chief Administrative Officer in conjunction with the 2004-05 budget request. The Auditor's concern should be fully resolved with this final step. The Department has clarified with the AC that many of these donations are intended to be spent over multiple years, hence the larger balances. Since the audit, the Department is maintaining additional documentation for each donation indicating purpose and expenditure time-line.

RECOMMENDATION # 4

Fully Implemented – See Attachment I.

RECOMMENDATION # 5

Fully Implemented – See Attachment I.

RECOMMENDATION #6

Fully Implemented – See Attachment I.

RECOMMENDATION # 7

Findings:

According to CFM Section 1.1.3, cash handling duties must be separated to ensure that no one individual controls all key aspects (e.g., receiving, receipting, depositing, disbursing, reconciling and recording) of a cash transaction. This is necessary to reduce the likelihood of losses occurring and going undetected. We conducted fieldwork at three branch libraries and noted that one of the libraries did not maintain adequate separation of duties. Two assistant librarians performed collecting, receipting, and depositing duties. Library management should review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Recommendations:

Public Library management review cash controls at all branch libraries to ensure that there is an adequate separation of duties for cash transactions.

Department's Response on April 15, 2003:

The Department agrees with this recommendation in principal. It should be noted, however, that separation of cash-handling duties is not feasible in the small and medium size libraries without a significant increase in staffing. Additionally, it should be noted that the Department has not experienced material cash losses. The Department requests that the Auditor provide alternative cash control procedures suitable for staff levels at small and medium size libraries.

Current Status of Recommendations/Implementation Plan:

During the audit and exit interview processes, Auditor-Controller (AC) staff acknowledged the inherent difficulty of ensuring adequate separation of duties in small and medium-size libraries due to staff limitations. The Department Head has requested that the AC provide alternative cash handling procedures for smaller facilities. When those alternative procedures are available, the Department will work with the Auditor for full implementation.

RECOMMENDATION # 8

Findings:

According to CFM Section 1.1.4, employees entrusted with a safe combination should safeguard the combination. In addition, safe combinations should be changed when an individual who has knowledge of the safe combination leaves County service, when a security breach occurs, or when any other reason that warrants a safe combination change occurs.

At two of the three branch libraries we visited, a copy of the safe combination was kept in an unlocked desk drawer. Library staff informed us that although they have changed the safe combinations in the past, the three libraries had not changed their safe combinations in over three years. Public Library management should ensure that safe combinationsare secured and changed in accordance with CFM requirements.

Recommendations:

Public Library management ensure that safe combinations are secured and changed in accordance with CFM requirements.

Department's Response on April 15, 2003:

The Department agrees that safe combinations should be secured, and will remind library staff of this requirement. In addition, the Department and the Auditor-Controller agree that the CFM should be updated by deleting the requirement of changing combinations annually, as this requirement is cost-prohibitive. In all other respects, the

Department agrees that CFM requirements regarding changing safe combinations should be followed.

It should be noted that the Department has not experienced any thefts from library safes.

Current Status of Recommendations/Implementation Plan:

Consistent with the recently revised CFM, the Department has drafted internal control procedures for managing the use of safes, and will implement within 90 days.

RECOMMENDATION # 9

Fully Implemented – See Attachment I.

RECOMMENDATION # 10

Fully Implemented – See Attachment I.

RECOMMENDATION # 11

Fully Implemented – See Attachment I.

RECOMMENDATION # 12

Fully Implemented – See Attachment I.

RECOMMENDATION # 13

Fully Implemented – See Attachment I.

RECOMMENDATION # 14

Fully Implemented – See Attachment I.

RECOMMENDATION # 15

Fully Implemented – See Attachment I.

RECOMMENDATION # 16

Fully Implemented – See Attachment I.

RECOMMENDATION # 17

Fully Implemented – See Attachment I.

RECOMMENDATION # 18

Fully Implemented – See Attachment I.

RECOMMENDATION # 19

Fully Implemented – See Attachment I.

RECOMMENDATION # 20

Fully Implemented – See Attachment I.

RECOMMENDATION # 21

Fully Implemented – See Attachment I.

RECOMMENDATION # 22

Fully Implemented – See Attachment I.

RECOMMENDATION # 23

Fully Implemented – See Attachment I.

RECOMMENDATION # 24

Fully Implemented – See Attachment I.

RECOMMENDATION # 25

Findings:

On June 22, 1999, the Board of Supervisors adopted the Living Wage Ordinance, which established requirements for contractors and subcontractors that conduct business with the County to pay their employees a minimum wage. Also, the County has an ordinance that permits debarment of a contractor that has committed an act or omission that indicates a lack of business integrity or business honesty. County departments are required to monitor contractors to ensure they comply with the Living Wage Ordinance and County contract requirements and to initiate the debarment process when appropriate.

Library management indicated, that due to staffing shortages, they were not effectively monitoring their contractors to ensure they are in compliance with the Living Wage Ordinance and County contract requirements. As a result, we performed reviews of two Library custodial contractors in April 2000, and September 2001. Our reviews noted several areas of non-compliance. One contractor subcontracted portions of its County contract without the Library's permission, did not maintain formal timekeeping documents, and paid custodial staff a fixed amount rather than the Living Wage rate times the hours worked. The second contractor did not provide us access to basic payroll and timekeeping information, as required by their County contract.

During our September 2001 reviews, we noted that one contractor had corrected the conditions noted in our April 2000 report, but still did not maintain formal timekeeping documentation. The second contractor still refused to provide us with basic timekeeping and payroll documentation. In December 2001, we notified the Library of the results of our second reviews.

Recently, the Library has taken action to improve its contract monitoring and ensure contractors correct areas of non-compliance in a timely manner. The Library reported that the first contractor had corrected the areas of non-compliance noted in our most current report by implementing a formal timekeeping system. The Library further indicated that they would more closely monitor to ensure the contractor uses the new timekeeping system. The contractor that refused to provide basic timekeeping and payroll documentation is on a month-to-month contract until the Library can find a replacement.

The Library needs to continue its recent efforts to effectively monitor contractors for compliance with the Living Wage Ordinance and the provisions of their County contracts. In addition, the Library needs to ensure that contractors take action to correct areas of non-compliance in a timely manner. Finally, the Library should initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.

Recommendations:

Public Library management initiate debarment proceedings against the contractor that refused to provide basic timekeeping and payroll documentation.

Department's Response on April 15, 2003:

The Department agrees with the recommendation and in the future will do so when advised by appropriate authority.

Current Status of Recommendations/Implementation Plan:

The Department has implemented a number of improvements in its contract monitoring process in accordance with the narrative of the audit findings. The implementation of the debarment was delayed due to the extended vacancy in the Contract Services Coordinator position. The Department will initiate proceedings within the next 90 days.

RECOMMENDATION # 26

Fully Implemented – See Attachment I.

RECOMMENDATION # 27

Fully Implemented – See Attachment I.

RECOMMENDATION # 28

Fully Implemented – See Attachment I.

RECOMMENDATION # 29

Fully Implemented – See Attachment I.

RECOMMENDATION # 30

Fully Implemented – See Attachment I.

RECOMMENDATION # 31

Findings:

Several hundred Library employees terminate service each year. In order to ensure that terminated employees do not receive any unauthorized payments, an individual with no payroll responsibilities should trace the names of terminated employees to the Payroll Sequence Register for at least one month after termination. The Library does not perform this procedure.

Recommendations:

Public Library management ensure someone with no payroll responsibilities traces all terminated employees' names to the Payroll Sequence Register for at least one month after termination.

Department's Response on April 15, 2003:

The Department agrees with the recommendation.

Current Status of Recommendations/Implementation Plan:

Internal control procedures for this recommendation are under development, including identifying the work unit that will be responsible for this level of periodic monitoring. The procedures will be implemented within 90 days.

RECOMMENDATION # 32

Findings:

Unannounced payroll distribution payoffs should be conducted at least once a year by personnel with no other payroll or personnel responsibilities. This control helps ensure that all employees receiving warrants or notices of direct deposits are bona fide. Payoffs are particularly important at the Library because it employs over 1,000 temporary employees.

The Library does not conduct periodic unannounced payroll distribution payoffs. The Library conducted payoffs at only 28 of its 103 pay locations between January 1999 and March 2001. Also, the Library announced the payoffs to staff in advance. The Library has not conducted any additional payroll distribution payoffs since March 2001. Public Library management should ensure unannounced payroll distribution payoffs are conducted at least once a year.

Recommendations:

Public Library management ensure unannounced payroll distribution payoffs are conducted at least once a year.

Department's Response on April 15, 2003:

The Department agrees with the recommendation.

Current Status of Recommendations/Implementation Plan:

The Department has 87 locations, requiring extensive coordination to implement this recommendation without incurring excessive administrative costs. The Assistant Director of Finance and Planning is working with the Assistant Director of Public Services to develop procedures for unannounced payroll visits and we anticipate implementing the procedures within 90 days.

RECOMMENDATION # 33

Fully Implemented – See Attachment I.

RECOMMENDATION # 34

Fully Implemented – See Attachment I.

RECOMMENDATION # 35

Fully Implemented – See Attachment I.

RECOMMENDATION # 36

Fully Implemented – See Attachment I.

RECOMMENDATION # 37

Fully Implemented – See Attachment I.

RECOMMENDATION # 38

Fully Implemented – See Attachment I.

RECOMMENDATION # 39

Fully Implemented – See Attachment I.

RECOMMENDATION # 40

Fully Implemented – See Attachment I.

RECOMMENDATION # 41

Fully Implemented – See Attachment I.

RECOMMENDATION # 42

Fully Implemented – See Attachment I.

RECOMMENDATION # 43

Fully Implemented – See Attachment I.

RECOMMENDATION # 44

Fully Implemented – See Attachment I.

RECOMMENDATION # 45

Fully Implemented – See Attachment I.

RECOMMENDATION # 46

Fully Implemented – See Attachment I.

RECOMMENDATION # 47

Fully Implemented – See Attachment I.

RECOMMENDATION # 48

Fully Implemented – See Attachment I.